2 Analyzing and Recording Transactions Chapter Preview SYSTEM OF ACCOUNTS C1Source documents  Types of accounts  General ledger  NTK 2-1 DEBITS AND CREDITS C2T-account  Debits and credits  Normal balance NTK 2-2 RECORDING TRANSACTIONS A1Journalizing and posting  Processing transactions—Examples NTK 2-3 FINANCIAL REPORTING P1Trial balance preparation and use  Financial statement preparation  A2Debt ratio NTK 2-4 Learning Objectives CONCEPTUAL C1Describe an account and its use in recording transactions. C2Define debits and credits and explain double-entry accounting. ANALYTICAL A1Analyze and record transactions and their impact on financial statements. A2Compute the debt ratio and describe its use in analyzing financial condition. PROCEDURAL P1Prepare financial statements from a trial balance.Page 45 Stitch in Time "Drive loyalty and relevance for customers" —Katrina Lake SAN FRANCISCO—Katrina Lake planned to pursue a health care career until she came up with a business idea as part of a class project. "I looked at people like [Google founders] Larry Page and Sergey Brin," recalls Katrina, "It took me a while to think that this was a path that was available to me." Katrina believed in her idea and launched her business, Stitch Fix (Stitchfix.com). Stitch Fix is an online subscription service that sends stylish clothes to customers' homes. Katrina's business has taken off. Stitch Fix already has over 2 million customers, and the company recently began offering its stock for sale to the public (ticker: SFIX), which makes Katrina the youngest woman ever to take a company public. Admits Katrina, "We've been underestimated before." Katrina explains that accounting is one key to her success. In the early stages of her business, Katrina set up an accounting system to track sales and expenses. She also made sure her financial reports were top quality to attract investors. Katrina asserts that reliable numbers cause "people [investors] to pay more attention." Dia Dipasupil/Getty Images Katrina is among the best at using accounting analytics to predict customer preferences. Much of what drives Stitch Fix's success is its algorithm that recommends clothing to customers. This drives additional sales and further subscription revenue. Katrina says that her use of accounting analytics is "what makes this company special!" Sources: Stitch Fix website, January 2021; CNN, July 2018; Time.com, May 2018

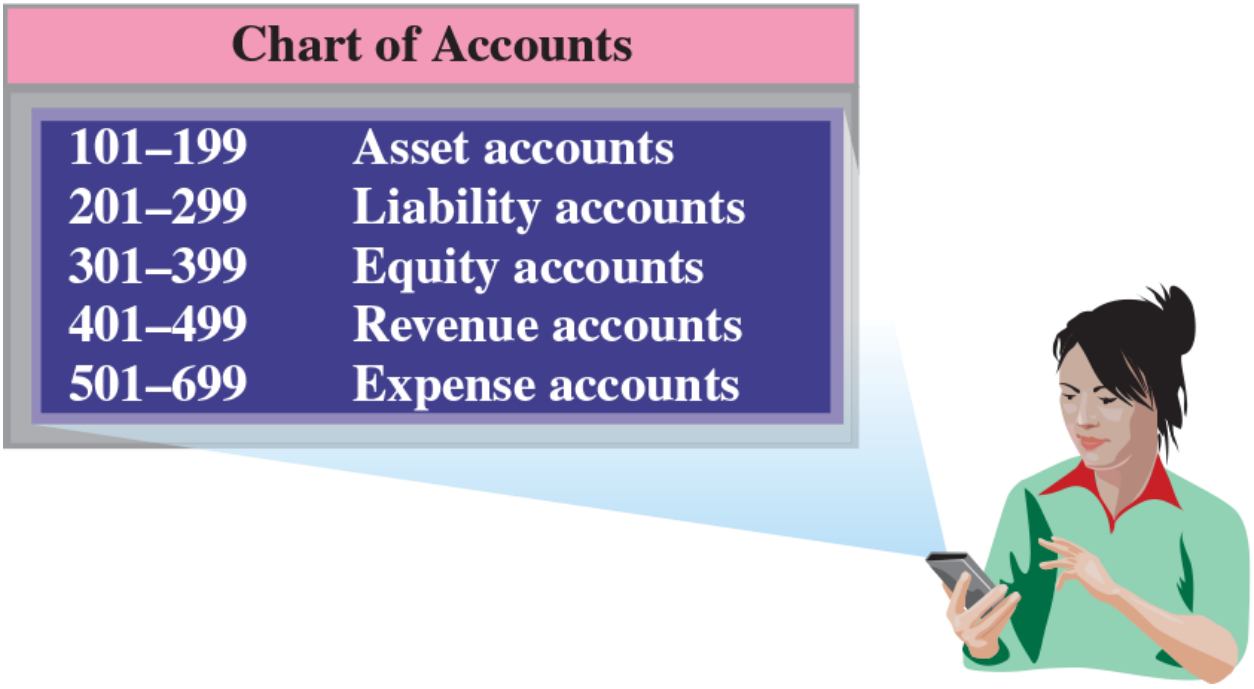
BASIS OF FINANCIAL STATEMENTS C1 Describe an account and its use in recording transactions. Business transactions and events are the starting points of financial statements. The process to go from transactions and events to financial statements includes the following. Identify each transaction and event from source documents. Analyze each transaction and event using the accounting equation. Record relevant transactions and events in a journal. Post journal information to ledger accounts. Prepare and analyze the trial balance and financial statements. Source Documents Source documents identify and describe transactions and events entering the accounting system.

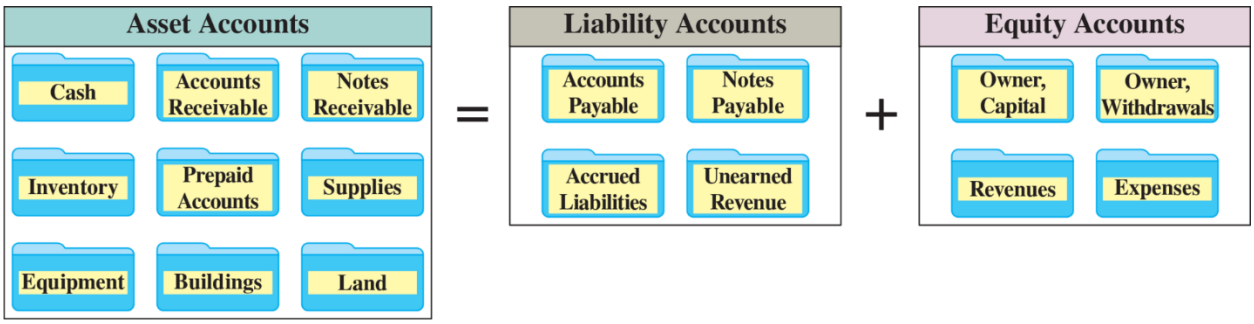
They can be in hard copy or electronic form. Examples are sales receipts, checks, purchase orders, bills from suppliers, payroll records, and bank statements. For example, cash registers record each sale on a tape or electronic file. This record is a source document for recording sales in the accounting system. Source documents are objective and reliable evidence about transactions and events and their amounts. Point: Accounting records also are called accounting books or the books. “Account” Underlying Financial Statements An account is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense. The general ledger, or simply ledger, is a record of all accounts and their balances. The ledger is often in electronic form. While most companies’ ledgers have similar accounts, a company often uses one or more unique accounts to match its type of operations. Exhibit 2.1 shows common asset, liability, and equity accounts. Page 46 EXHIBIT 2.1  Accounts Organized by the Accounting Equation Asset Accounts Assets are resources owned or controlled by a company. Resources have expected future benefits. Most accounting systems include (at a minimum) separate accounts for the assets described here. Cash A Cash account shows a company’s cash balance. All increases and decreases in cash are recorded in the Cash account. It includes money and any funds that a bank accepts for deposit (coins, checks, money orders, and checking account balances). Accounts Receivable Accounts receivable are held by a seller and are promises of payment from customers to sellers. Accounts receivable are increased by credit sales or sales on credit (or on account). They are decreased by customer payments. We record all increases and decreases in receivables in the Accounts Receivable account. When there are multiple customers, separate records are kept for each, titled Accounts Receivable—‘Customer Name’. Notes Receivable A note receivable, or promissory note, is a written promise of another entity to pay a specific sum of money on a specified future date to the holder of the note; the holder has an asset recorded in a Notes Receivable account. It is different than accounts receivable because it comes from a formal contract called a promissory note. Notes receivable usually require interest, whereas accounts receivable do not. Prepaid Accounts Prepaid accounts (or prepaid expenses) are assets from prepayments of future expenses (expenses expected to be incurred in future accounting periods). When the expenses are later incurred, the amounts in prepaid accounts are transferred to expense accounts. Common examples of prepaid accounts are prepaid insurance, prepaid rent, and prepaid services. Prepaid accounts expire with the passage of time (such as with rent) or through use (such as with prepaid gift cards). Chapter 3 covers prepaid accounts in detail. Supplies Accounts Supplies are assets until they are used. When they are used up, their costs are reported as expenses. Unused supplies are recorded in a Supplies asset account. Supplies often are grouped by purpose—for example, office supplies and store supplies. Equipment Accounts Equipment is an asset. Its cost is allocated over time to expense, called depreciation. Equipment often is grouped by its purpose—for example,

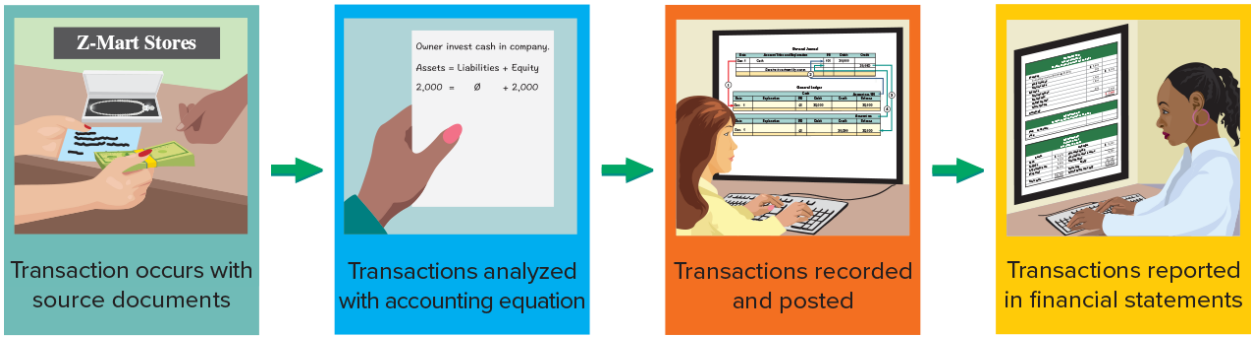
office equipment and store equipment. Buildings Accounts Buildings such as stores, offices, warehouses, and factories are assets. Cost of buildings is allocated over time to expense, called depreciation. When several buildings are owned, separate accounts are sometimes kept for each of them. Land The cost of land is recorded in a Land account. The cost of buildings located on the land is separately recorded in building accounts. Page 47 Decision Insight Jasmine Crowe, Founder and CEO of Goodr Women Entrepreneurs "Do-goodr" Jasmine Crowe (in photo), the founder and CEO of Goodr, works to reduce food waste and combat hunger. The Center for Women's Business Research reports women-owned businesses (1) total more than 11 million and employ nearly 20 million workers, (2) generate $2.5 trillion in annual sales and tend to embrace technology, and (3) are philanthropic—70% of owners volunteer at least once per month. ■ Liability Accounts Liabilities are obligations to transfer assets or provide products or services to others. They are claims by creditors against assets. Creditors are individuals and organizations that have rights to receive payments from a company. Debtors are those who owe money. Common liability accounts are described here. Accounts Payable Accounts payable are promises to pay later. Payables can come from purchases on credit or on account of merchandise-for-resale, supplies, equipment, and services. We record all increases and decreases in payables in the Accounts Payable account. When there are multiple suppliers, separate records are kept for each, titled Accounts Payable—'Supplier Name'. Notes Payable A note payable is a written promissory note to pay a future amount. Notes payable are different than accounts payable because they come from a formal contract called a promissory note and usually require interest. Unearned Revenue Accounts Unearned revenue is a liability that is recorded when customers pay in advance for products or services. Examples of unearned revenue include magazine subscriptions collected in advance by a publisher, rent collected in advance by a landlord, and season ticket sales by sports teams. The seller would record these in liability accounts such as Unearned Subscriptions and Unearned Rent. When products and services are later delivered, unearned revenue is transferred to revenue. Point: Two words that almost always identify liability accounts: "payable," meaning liabilities that must be paid, and "unearned," meaning liabilities that must be fulfilled. Accrued Liabilities Accrued liabilities are amounts owed that are not yet paid. Examples are wages payable, taxes payable, and interest payable. These often are recorded in separate liability accounts by the same title. Equity Accounts The owner's claim on a company's assets is called equity, or owner's equity. Equity is the owner's residual interest in the assets of a business after subtracting liabilities. Equity is impacted by four types of accounts, as shown in Exhibit 2.2. EXHIBIT 2.2 Equity Accounts Owner Capital When an owner invests in a company, it increases both assets and equity. The increase to equity is recorded in the account titled Owner, Capital, where the owner's name is inserted in place of 'Owner.' C. Taylor, Capital is used for

FastForward. Owner investments are not revenues of the business. Owner Withdrawals When an owner withdraws assets for personal use, it decreases both company assets and total equity. The decrease to equity is recorded in an account titled Owner, Withdrawals. C. Taylor, Withdrawals is used for FastForward. Withdrawals are not expenses of the business; they are simply the opposite of owner investments. Revenue Accounts Sales of products and services to customers are recorded in revenue accounts, which increase equity. Examples of revenue accounts are Sales, Commissions Revenue, Professional Fees Revenue, Rent Revenue, and Interest Revenue. Revenues always increase equity. Account titles can differ: Product sales are called net sales at Apple, revenues at Google, and revenue at Samsung. Revenues or fees is commonly used with service businesses, and net sales or sales is used with product businesses. Page 48 Expense Accounts Costs of providing products and services are recorded in expense accounts, which decrease equity. Examples of expense accounts are Advertising Expense, Salaries Expense, Rent Expense, Utilities Expense, and Insurance Expense. Expenses always decrease equity. A variety of revenues and expenses are in the chart of accounts at the end of this book. Ledger and Chart of Accounts The collection of all accounts and their balances is called a ledger (or general ledger). A company's size and diversity of operations affect the number of accounts needed. A small company can have as few as 20 accounts; a large company can require thousands. The chart of accounts is a list of all ledger accounts with an identification number assigned to each account. Exhibit 2.3 shows a common numbering system of accounts for a smaller business. EXHIBIT 2.3 Typical Chart of Accounts for a Smaller Business These account numbers have a three-digit code that is useful in recordkeeping. In this example, the first digit of asset accounts is a 1, the first digit of liability accounts is a 2, and so on. The second and third digits relate to the accounts' subcategories. Exhibit 2.4 shows a partial chart of accounts for FastForward. EXHIBIT 2.4 Partial Chart of Accounts for FastForward Table Summary: Overall table heading is Chart of Accounts. The subheadings include Assets, Liabilities, and Equity. Assets include five accounts; Liabilities include two accounts; and Equity includes three types of accounts: Capital/withdrawals, revenue accounts, and expense accounts. Chart of Accounts Assets 101 Cash 106 Accounts receivable 126 Supplies 128 Prepaid insurance 167 Equipment Liabilities 201 Accounts payable 236 Unearned consulting revenue Equity Revenues Expenses 301 C. Taylor, Capital 403 Consulting revenue 622 Salaries expense 302 C. Taylor, Withdrawals 406 Rental revenue 637 Insurance expense 640 Rent expense 652 Supplies expense 690 Utilities expense Decision Insight Sam Wasson/Getty Images Unearned Revenue Many professional sports teams have over $100 million in advance ticket sales in Unearned Revenue. When a team plays its home games, it settles this liability to its ticket holders and then transfers the amount earned to Ticket Revenue. Teams such as the Seattle Storm, Minnesota Lynx, and L.A. Sparks of the Women's National

Basketball Association have unearned revenue. ■ NEED-TO-KNOW 2-1 Classifying Accounts C1 Classify each of the following accounts as either an asset (A), liability (L), or equity (EQ) account. Prepaid Rent Owner, Capital Note Receivable Accounts Payable Accounts Receivable Equipment Interest Payable Unearned Revenue Land Prepaid Insurance Wages Payable Rent Payable Solution 1. A 2. EQ 3. A 4. L 5. A 6. A 7. L 8. L 9. A 10. A 11. L 12. L Do More: QS 2-1, QS 2-2, QS 2-3, E 2-1, E 2-2, E 2-3, E 2-4

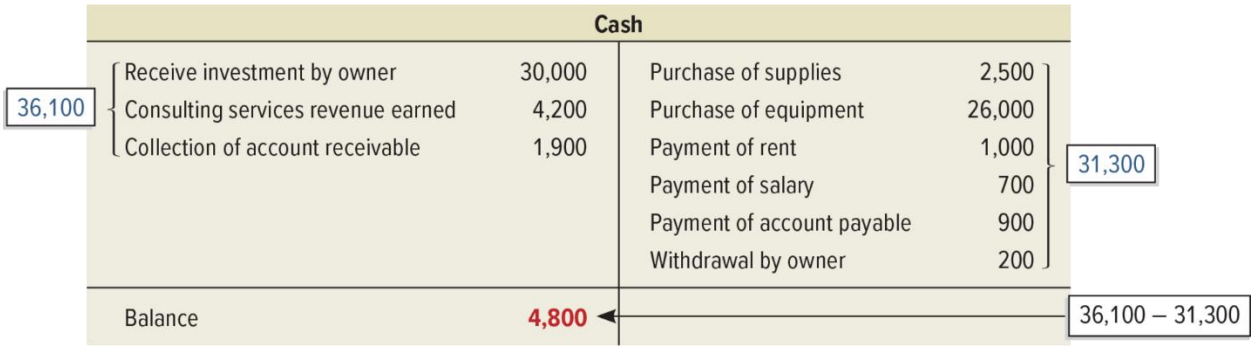


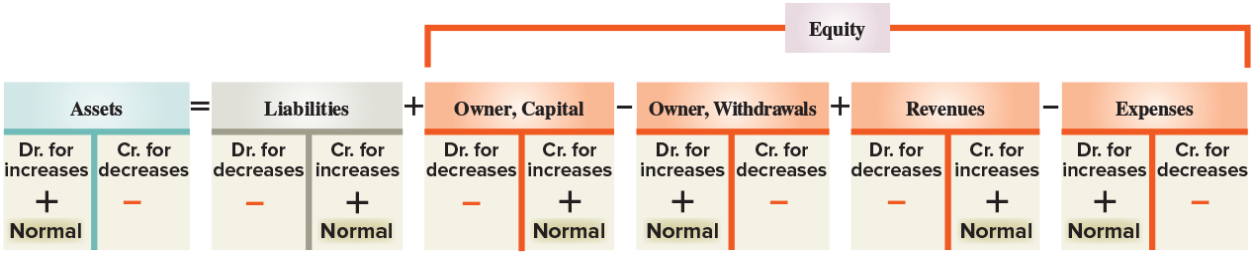



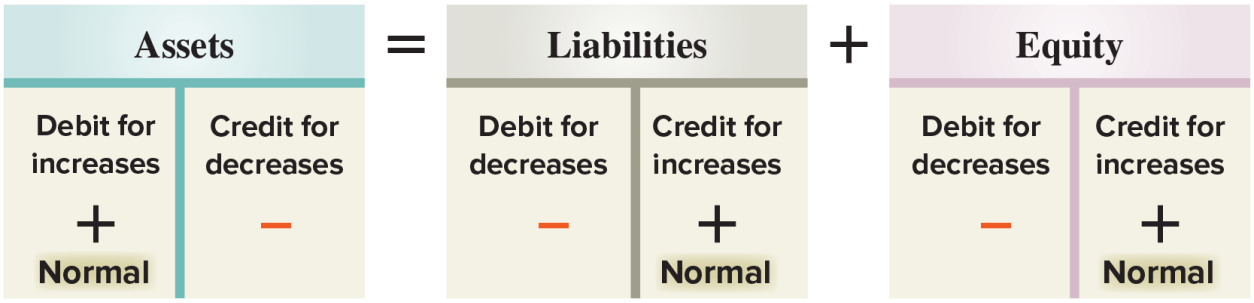



DOUBLE-ENTRY ACCOUNTING Debits and Credits C2 Define debits and credits and explain double-entry accounting. A T-account represents a ledger account and is used to show the effects of transactions. Its name comes from its shape like the letter T. The layout of a T-account is shown in Exhibit 2.5. EXHIBIT 2.5 The T-Account Table Summary: Simple diagram of T-account with account title above the horizontal line at the top; Debit appears on the left side of the centered vertical line, and Credit appears on the right side. Account Title (Left side) Debit (Right side) Credit The left side of an account is called the debit side, or Dr. The right side is called the credit side, or Cr. To enter amounts on the left side of an account is to debit the account. To enter amounts on the right side is to credit the account. The term debit or credit, by itself, does not mean increase or decrease. Whether a debit or a credit is an increase or decrease depends on the account. Point: Debit and credit are accounting directions for left and right. The difference between total debits and total credits for an account, including any beginning balance, is the account balance. When total debits exceed total credits, the account has a debit balance. It has a credit balance when total credits exceed total debits. When total debits equal total credits, the account has a zero balance. Double-Entry System Double-entry accounting demands the accounting equation remain in balance, which means that for each transaction: At least two accounts are involved, with at least one debit and one credit. Total amount debited must equal total amount credited. This means total debits must equal total credits for all entries, and total debit account balances in the ledger must equal total credit account balances. The system for recording debits and credits follows the accounting equation—see Exhibit 2.6. EXHIBIT 2.6 Debits and Credits in the Accounting Equation Net increases or decreases on one side have equal net effects on the other side. For example, a net increase in assets must include an equal net increase on the liabilities and equity side. Some transactions affect only one side of the equation, such as acquiring a land asset by giving up a cash asset, but their net effect on this one side is zero. Point: Assets are on the left-hand side of the equation and thus increase on the left. Liabilities and equity are on the right-hand side of the equation and thus increase on the right. The left side is the normal balance side for assets; the right side is the normal balance side for liabilities and equity. This matches their layout in the accounting equation, where assets are on the left side and liabilities and equity are on the right. Equity increases from revenues and owner investments, and it decreases from expenses and owner withdrawals. We see this by expanding the accounting equation to include debits and credits in double-entry form, as shown in Exhibit 2.7. Page 50 EXHIBIT 2.7 Debit and Credit Effects for Component Accounts Increases (credits) to owner's capital and revenues increase equity; increases (debits) to withdrawals and expenses decrease equity. The normal balance of each account is the side where increases are recorded. The T-account for FastForward's Cash account, reflecting its first 11 transactions (from Exhibit 1.9), is shown in Exhibit 2.8. The

total increases (debits) in its Cash account are $36,100, and the total decreases (credits) are $31,300. Total debits exceed total credits by $4,800, resulting in its ending debit balance of $4,800. Point: DrEAD means debit (Dr) is the normal balance side for Expense, Asset, and Drawing accounts; credit the others. EXHIBIT 2.8 Computing the Balance for a T-Account Point: The ending balance is on the side with the larger dollar amount. NEED-TO-KNOW 2-2 Normal Account Balance C2 Identify the normal balance (debit [Dr] or credit [Cr]) for each of the following accounts. Prepaid Rent Owner, Capital Note Receivable Accounts Payable Accounts Receivable Equipment Interest Payable Unearned Revenue Land Prepaid Insurance Owner, Withdrawals Utilities Expense Solution 1. Dr. 2. Cr. 3. Dr. 4. Cr. 5. Dr. 6. Dr. 7. Cr. 8. Cr. 9. Dr. 10. Dr. 11. Dr. 12. Dr. Do More: QS 2-4, QS 2-5, QS 2-6, QS 2-7, E 2-5



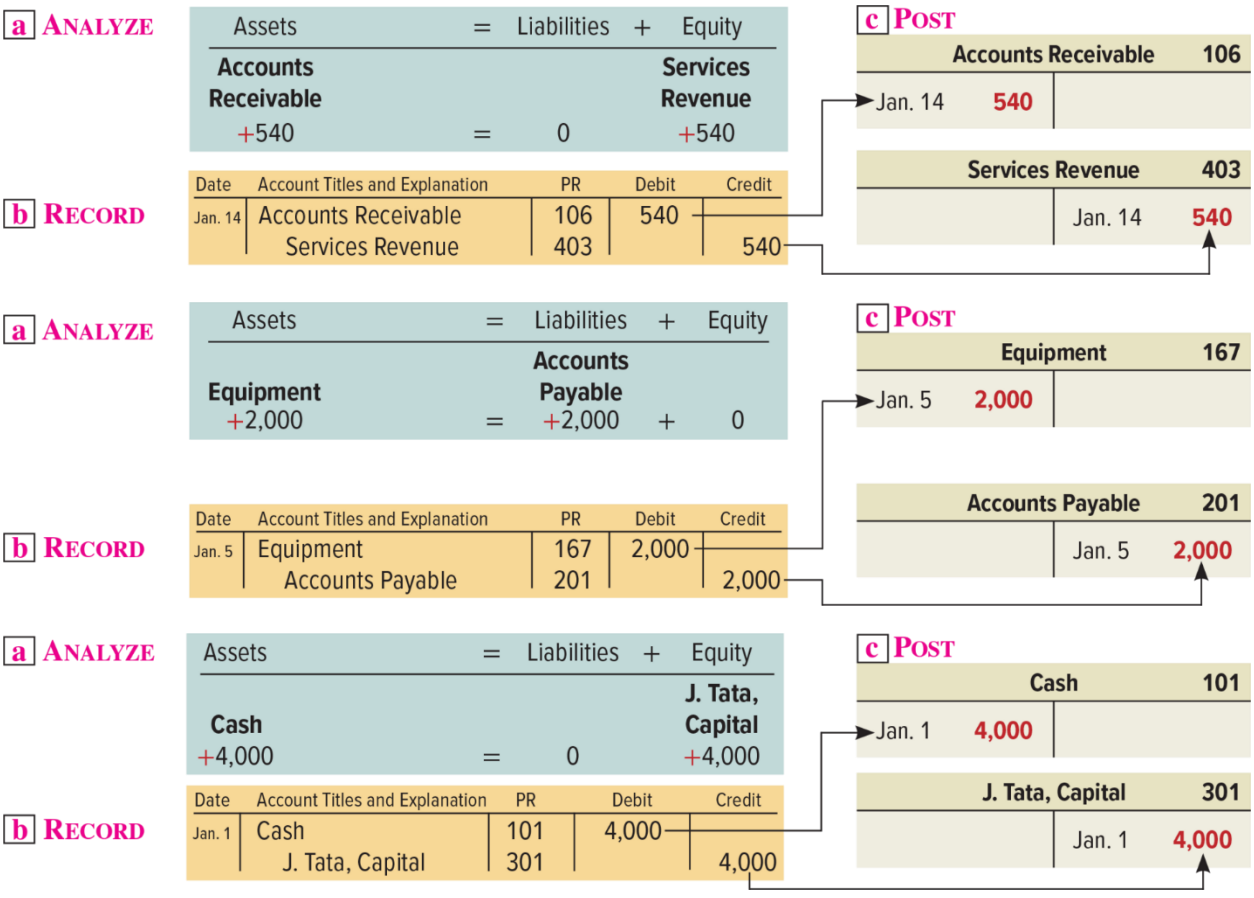




ANALYZING AND PROCESSING TRANSACTIONS This section covers analyzing, recording, and posting transactions. Journalizing and Posting Transactions A1 Analyze and record transactions and their impact on financial statements. The four steps of processing transactions are shown in Exhibit 2.9. Steps 1 and 2—transaction analysis and the accounting equation—already were covered. This section focuses on steps 3 and 4. Step 3

is to record each transaction chronologically in a journal. A journal is a complete record of each transaction in one place. It also shows debits and credits for each transaction. Recording transactions in a journal is called journalizing. Step 4 is to transfer (or post) entries from the journal to the ledger. Transferring journal entry information to the ledger is called posting. EXHIBIT 2.9 Steps in Processing Transactions Page 51 Journalizing Transactions Journalizing transactions requires an understanding of a journal. While companies can use various journals, every company uses a general journal. It can be used to record any transaction. Exhibit 2.10 shows how the first two transactions of FastForward are recorded in a general journal. EXHIBIT 2.10 Partial General Journal To record entries in a general journal, apply these steps; refer to Exhibit 2.10. ⓐ Date the transaction on the first line of each journal entry. ⓑ Enter titles of accounts debited and then enter amounts in the Debit column on the same line. Account titles are taken from the chart of accounts. ⓒ Enter titles of accounts credited and then enter amounts in the Credit column on the same line. Account titles are from the chart of accounts and are indented to separate them from debited accounts. ⓓ Enter a brief explanation of the transaction on the line below the entry. When a transaction is first recorded, the posting reference (PR) column is left blank (in a manual system). Later, when posting entries to the ledger, the identification numbers of the individual ledger accounts are entered in the PR column. Balance Column Account T-accounts are simple and show how the accounting process works. However, actual accounting systems need more structure and therefore use a different formatting of T-accounts, called balance column accounts, shown in Exhibit 2.11. EXHIBIT 2.11 Cash Account in Balance Column Format The balance column account format is similar to a T-account in having columns for debits and credits. It is different in including transaction date and explanation columns. It also has a column where the balance of the account after each entry is recorded. FastForward's Cash account in Exhibit 2.11 is debited on December 1 for the $30,000 owner investment, yielding a $30,000 debit balance. The account is credited on December 2 for $2,500, yielding a $27,500 debit balance. On December 3, it is credited for $26,000, and its debit balance is reduced to $1,500.
The Cash account is debited for $4,200 on December 10, and its debit balance increases to $5,700; and so on. The heading of the Balance column does not show whether it is a debit or credit balance. Instead, an account is assumed to have a normal balance. Unusual events can sometimes temporarily create an abnormal balance. An abnormal balance is a balance on the side where decreases are recorded. For example, a customer might mistakenly overpay a bill. Posting Journal Entries Page 52 Step 4 of processing transactions is to post journal entries to ledger accounts. All entries are posted to the ledger before financial statements are prepared so that account balances are up-to-date. When entries are posted to the ledger, the debits in journal entries are transferred into ledger accounts as debits, and credits are transferred into ledger accounts as credits. Exhibit 2.12 shows

four parts to posting a journal entry. A Identify the ledger account(s) that is debited in the entry. In the ledger, enter the entry date, the journal and page in its PR column, the debit amount, and the new balance of the ledger account. (G shows it came from the general journal.) B Enter the ledger account number in the PR column of the journal. Parts C and D repeat the first two steps for credit entries and amounts. The posting process creates a link between the ledger and the journal entry. This link is a useful cross-reference for tracing an amount from one record to another. Point: Posting is automatic with accounting software. Point: The fundamental concepts of a manual system are identical to those of a computerized information system. EXHIBIT 2.12  Posting an Entry to the Ledger Analytics Insight Ekaphon maneechot/Shutterstock Blockchain Ledger Blockchain, the technology used to authenticate and track Bitcoin transactions, could radically change accounting systems. This technology unlocks the potential for a new type of ledger that is constantly verified, and one that cannot be changed without others noticing. Blockchain presents a unique opportunity for those with accounting knowledge, as they are highly desired to help build, implement, maintain, and audit this new technology. ■ Processing Transactions—An Example We use FastForward to show how double-entry accounting is used in analyzing and processing transactions. Analysis of each transaction follows the four steps of Exhibit 2.9. Step 1Identify transactions and source documents. Step 2Analyze the transaction using the accounting equation. Step 3Record the journal entry. Step 4Post the entry (for simplicity, we use T-accounts as ledger accounts). Study each transaction before moving to the next. The first 11 transactions are from Chapter 1, and we analyze five additional December transactions of FastForward (numbered 12 through 16). Point: In Need-to-Know 2-5, we show how to use balance column accounts for the ledger. Receive Investment by Owner Page 53 Purchase Supplies for Cash Purchase Equipment for Cash Purchase Supplies on Credit Provide Services for Cash Payment of Expense in Cash Page 54 Payment of Expense in Cash Point: Salary usually refers to compensation of a fixed amount for a given time period. Wages is compensation based on time worked. Provide Consulting and Rental Services on Credit Point: Revenue is recognized when products and services are provided, not necessarily when the customer pays. Point: Transaction 8 is a compound journal entry, which is an entry that affects three or more accounts. Receipt of Cash from Accounts Receivable Partial Payment of Accounts Payable Page 55 Withdrawal of Cash by Owner Point: Withdrawals always decrease equity. Receipt of Cash for Future Services Point: “Unearned” accounts are liabilities that must be fulfilled. Pay Cash for Future Insurance Coverage Page 56 Purchase Supplies for Cash Payment of Expense in Cash Payment of Expense in Cash Debit and Credit Rules Accounts Increase (normal bal.) Decrease Asset Debit Credit Liability Credit Debit Owner, Capital Credit Debit Withdrawals Debit Credit Revenue Credit Debit Expense Debit CreditPage 57 Summarizing Transactions in a Ledger Exhibit 2.13 shows the ledger accounts (in T-account form) of FastForward after

all 16 transactions are recorded and posted and the balances computed. The accounts are grouped into three columns following the accounting equation: assets, liabilities, and equity. Totals for the three columns obey the accounting equation: Assets equal $42,395 ($4,275 + $0 + $9,720 + $2,400 + $26,000). Liabilities equal $9,200 ($6,200 + $3,000). Equity equals $33,195 ($30,000 − $200 + $5,800 + $300 − $1,400 − $1,000 − $305). The accounting equation: $42,395 = $9,200 + $33,195. Owner capital, withdrawals, revenue, and expense accounts reflect transactions that change equity. Revenue and expense account balances are reported in the income statement. EXHIBIT 2.13 Ledger for FastForward (in T-Account Form) Page 58 NEED-TO-KNOW 2-3 Recording Transactions A1 Tata Company began operations on January 1 and completed the following transactions. For each transaction, (a) analyze the transaction using the accounting equation, (b) record the journal entry, and (c) post the entry using T-accounts as ledger accounts. Jan. 1 Jamsetji Tata invested $4,000 cash in the Tata Company. 5 Tata Company purchased $2,000 of equipment on credit. 14 Tata Company provided $540 of services for a client on credit. Solution Jan. 1 Receive Investment by Owner Jan. 5 Purchase Equipment on Credit Jan. 14 Provide Services on Credit Do More: QS 2-8 through QS 2-11, E 2-6 through E 2-11, E 2-13, E 2-15 through E 2-19



## General Ledger

### Assets = Liabilities + Equity

**Cash 101**

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |
| | | (13) | 2,400 |
| | | (14) | 120 |
| | | (15) | 305 |
| | | (16) | 700 |
| Balance | **4,275** | | |

**Accounts Receivable 106**

| | | | |
|---|---|---|---|
| (8) | 1,900 | (9) | 1,900 |
| Balance | **0** | | |

**Supplies 126**

| | |
|---|---|
| (2) | 2,500 |
| (4) | 7,100 |
| (14) | 120 |
| Balance | **9,720** |

**Prepaid Insurance 128**

| | |
|---|---|
| (13) | **2,400** |

**Equipment 167**

| | |
|---|---|
| (3) | **26,000** |

**Accounts Payable 201**

| | | | |
|---|---|---|---|
| (10) | 900 | (4) | 7,100 |
| | | Balance | **6,200** |

**Unearned Consulting Revenue 236**

| | |
|---|---|
| (12) | **3,000** |

**C. Taylor, Capital 301**

| | |
|---|---|
| (1) | **30,000** |

**C. Taylor, Withdrawals 302**

| | |
|---|---|
| (11) | **200** |

**Consulting Revenue 403**

| | |
|---|---|
| (5) | 4,200 |
| (8) | 1,600 |
| Balance | **5,800** |

**Rental Revenue 406**

| | |
|---|---|
| (8) | **300** |

**Salaries Expense 622**

| | |
|---|---|
| (7) | 700 |
| (16) | 700 |
| Balance | **1,400** |

**Rent Expense 640**

| | |
|---|---|
| (6) | **1,000** |

**Utilities Expense 690**

| | |
|---|---|
| (15) | **305** |

Accounts in this white area are on the income statement.

**$42,395 = $9,200 + $33,195**

**1 IDENTIFY** FastForward pays $700 cash in employee salary for work performed in the latter part of December.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | Salaries Expense |
| Cash | | | | |
| −700 | = | 0 | | −700 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (16) | Salaries Expense | 622 | 700 | |
| | Cash | 101 | | 700 |

**4 POST**

Salaries Expense 622

| | |
|---|---|
| (7) | 700 |
| (16) | 700 |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |
| | | (13) | 2,400 |
| | | (14) | 120 |
| | | (15) | 305 |
| | | (16) | 700 |

**1 IDENTIFY** FastForward pays $305 cash for December utilities expense.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | Utilities Expense |
| Cash | | | | |
| −305 | = | 0 | | −305 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (15) | Utilities Expense | 690 | 305 | |
| | Cash | 101 | | 305 |

**4 POST**

Utilities Expense 690

| | |
|---|---|
| (15) | 305 |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |
| | | (13) | 2,400 |
| | | (14) | 120 |
| | | (15) | 305 |

**1 IDENTIFY** FastForward pays $120 cash for supplies.

**2 ANALYZE**

| Assets | | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|---|
| **Cash** | **Supplies** | | | | | |
| −120 | +120 | | = | 0 | + | 0 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (14) | Supplies | 126 | 120 | |
| | Cash | 101 | | 120 |

**4 POST**

**Supplies** 126

| | | | |
|---|---|---|---|
| (2) | 2,500 | | |
| (4) | 7,100 | | |
| **(14)** | **120** | | |

**Cash** 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |
| | | (13) | 2,400 |
| | | **(14)** | **120** |

**1 IDENTIFY** FastForward pays $2,400 cash (insurance premium) for a 24-month insurance policy. Coverage begins on December 1.

**2 ANALYZE**

| Assets | | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|---|
| **Cash** | **Prepaid Insurance** | | | | | |
| −2,400 | +2,400 | | = | 0 | + | 0 |

Changes the composition of assets from cash to prepaid insurance. Expense is recorded as insurance coverage expires.

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (13) | Prepaid Insurance | 128 | 2,400 | |
| | Cash | 101 | | 2,400 |

**4 POST**

**Prepaid Insurance** 128

| | | | |
|---|---|---|---|
| **(13)** | **2,400** | | |

**Cash** 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| (12) | 3,000 | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |
| | | **(13)** | **2,400** |

**1 IDENTIFY** FastForward receives $3,000 cash in advance of providing consulting services to a customer.

**2 ANALYZE**

| Assets | | Liabilities | + | Equity |
|---|---|---|---|---|
| | | **Unearned** | | |
| **Cash** | | **Consulting Revenue** | | |
| +3,000 | = | +3,000 | + | 0 |

Accepting $3,000 cash requires FastForward to perform future services and is a liability. No revenue is recorded until services are provided.

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (12) | Cash | 101 | 3,000 | |
| | Unearned Consulting Revenue | 236 | | 3,000 |

**4 POST**

**Cash** 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| **(12)** | **3,000** | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |

**Unearned Consulting Revenue** 236

| | | | |
|---|---|---|---|
| | | **(12)** | **3,000** |

**1 IDENTIFY** C. Taylor withdraws $200 cash from FastForward for personal use.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | C. Taylor, Withdrawals |
| Cash | | | | |
| −200 | = | 0 | | −200 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (11) | C. Taylor, Withdrawals | 302 | 200 | |
| | Cash | 101 | | 200 |

**4 POST**

C. Taylor, Withdrawals 302

| | | | |
|---|---|---|---|
| (11) | 200 | | |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| | | (7) | 700 |
| | | (10) | 900 |
| | | (11) | 200 |

**1 IDENTIFY** FastForward pays $900 cash toward the accounts payable of Transaction 4.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| Cash | | Accounts Payable | | |
| −900 | = | −900 | + | 0 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (10) | Accounts Payable | 201 | 900 | |
| | Cash | 101 | | 900 |

**4 POST**

Accounts Payable 201

| | | | |
|---|---|---|---|
| (10) | 900 | (4) | 7,100 |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| | | (7) | 700 |
| | | (10) | 900 |

**1 IDENTIFY** FastForward pays $900 cash toward the accounts payable of Transaction 4.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| Cash | | Accounts Payable | | |
| −900 | = | −900 | + | 0 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (10) | Accounts Payable | 201 | 900 | |
| | Cash | 101 | | 900 |

**4 POST**

Accounts Payable 201

| | | | |
|---|---|---|---|
| (10) | 900 | (4) | 7,100 |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| (9) | 1,900 | (6) | 1,000 |
| | | (7) | 700 |
| | | (10) | 900 |

**1 IDENTIFY** FastForward receives $1,900 cash from the customer billed in Transaction 8.

**2 ANALYZE**

| Assets | | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|---|
| Cash | Accounts Receivable | | | | | |
| +1,900 | −1,900 | | = | 0 | + | 0 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (9) | Cash | 101 | 1,900 | |
| | Accounts Receivable | 106 | | 1,900 |

**4 POST**

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| **(9)** | **1,900** | (6) | 1,000 |
| | | (7) | 700 |

| Accounts Receivable | | | 106 |
|---|---|---|---|
| (8) | 1,900 | **(9)** | **1,900** |

**1 IDENTIFY** FastForward provides consulting services of $1,600 and rents its test facilities for $300. The customer is billed $1,900 for these services.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity | |
|---|---|---|---|---|---|
| Accounts Receivable | | | | Consulting Revenue | Rental Revenue |
| +1,900 | = | 0 | | +1,600 | +300 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (8) | Accounts Receivable | 106 | 1,900 | |
| | Consulting Revenue | 403 | | 1,600 |
| | Rental Revenue | 406 | | 300 |

**4 POST**

| Accounts Receivable | | | 106 |
|---|---|---|---|
| **(8)** | **1,900** | | |

| Consulting Revenue | | | 403 |
|---|---|---|---|
| | | (5) | 4,200 |
| | | **(8)** | **1,600** |

| Rental Revenue | | | 406 |
|---|---|---|---|
| | | **(8)** | **300** |

**1 IDENTIFY** FastForward provides consulting services of $1,600 and rents its test facilities for $300. The customer is billed $1,900 for these services.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity | |
|---|---|---|---|---|---|
| Accounts Receivable | | | | Consulting Revenue | Rental Revenue |
| +1,900 | = | 0 | | +1,600 | +300 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (8) | Accounts Receivable | 106 | 1,900 | |
| | Consulting Revenue | 403 | | 1,600 |
| | Rental Revenue | 406 | | 300 |

**4 POST**

| Accounts Receivable | | | 106 |
|---|---|---|---|
| **(8)** | **1,900** | | |

| Consulting Revenue | | | 403 |
|---|---|---|---|
| | | (5) | 4,200 |
| | | **(8)** | **1,600** |

| Rental Revenue | | | 406 |
|---|---|---|---|
| | | **(8)** | **300** |

**1 IDENTIFY** FastForward pays $700 cash for employee salary.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | Salaries Expense |
| Cash | | | | |
| −700 | = | 0 | | −700 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (7) | Salaries Expense | 622 | 700 | |
| | Cash | 101 | | 700 |

**4 POST**

Salaries Expense 622

| | | | |
|---|---|---|---|
| (7) | 700 | | |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| | | (6) | 1,000 |
| | | (7) | 700 |

**1 IDENTIFY** FastForward provides consulting services of $1,600 and rents its test facilities for $300. The customer is billed $1,900 for these services.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity | |
|---|---|---|---|---|---|
| | | | | Consulting Revenue | Rental Revenue |
| Accounts Receivable | | | | | |
| +1,900 | = | 0 | | +1,600 | +300 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (8) | Accounts Receivable | 106 | 1,900 | |
| | Consulting Revenue | 403 | | 1,600 |
| | Rental Revenue | 406 | | 300 |

**4 POST**

Accounts Receivable 106

| | | | |
|---|---|---|---|
| (8) | 1,900 | | |

Consulting Revenue 403

| | | | |
|---|---|---|---|
| | | (5) | 4,200 |
| | | (8) | 1,600 |

Rental Revenue 406

| | | | |
|---|---|---|---|
| | | (8) | 300 |

**1 IDENTIFY** FastForward pays $700 cash for employee salary.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | Salaries Expense |
| Cash | | | | |
| −700 | = | 0 | | −700 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (7) | Salaries Expense | 622 | 700 | |
| | Cash | 101 | | 700 |

**4 POST**

Salaries Expense 622

| | | | |
|---|---|---|---|
| (7) | 700 | | |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| | | (6) | 1,000 |
| | | (7) | 700 |

**1 IDENTIFY** FastForward pays $1,000 cash for December rent.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | Rent Expense |
| Cash | | | | |
| −1,000 | = | 0 | | −1,000 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (6) | Rent Expense | 640 | 1,000 | |
| | Cash | 101 | | 1,000 |

**4 POST**

Rent Expense 640

| | | | |
|---|---|---|---|
| (6) | 1,000 | | |

Cash 101

| | | | |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |
| | | (6) | 1,000 |

**1 IDENTIFY** FastForward provides consulting services and immediately collects $4,200 cash.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | | | Consulting Revenue |
| Cash | | | | |
| +4,200 | = | 0 | | +4,200 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (5) | Cash | 101 | 4,200 | |
| | Consulting Revenue | 403 | | 4,200 |

**4 POST**

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| (5) | 4,200 | (3) | 26,000 |

| Consulting Revenue | | | 403 |
|---|---|---|---|
| | | (5) | 4,200 |

**1 IDENTIFY** FastForward purchases $7,100 of supplies on credit from a supplier.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| | | Accounts Payable | | |
| Supplies | | | | |
| +7,100 | = | +7,100 | + | 0 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (4) | Supplies | 126 | 7,100 | |
| | Accounts Payable | 201 | | 7,100 |

**4 POST**

| Supplies | | | 126 |
|---|---|---|---|
| (2) | 2,500 | | |
| (4) | 7,100 | | |

| Accounts Payable | | | 201 |
|---|---|---|---|
| | | (4) | 7,100 |

**1 IDENTIFY** FastForward pays $26,000 cash for equipment.

**2 ANALYZE**

| Assets | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|
| Cash | Equipment | | | | |
| −26,000 | +26,000 | = | 0 | + | 0 |

Changes the composition of assets but not the total.

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (3) | Equipment | 167 | 26,000 | |
| | Cash | 101 | | 26,000 |

**4 POST**

| Equipment | | | 167 |
|---|---|---|---|
| (3) | 26,000 | | |

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |
| | | (3) | 26,000 |

**1 IDENTIFY** FastForward pays $2,500 cash for supplies.

**2 ANALYZE**

| Assets | | = | Liabilities | + | Equity |
|---|---|---|---|---|---|
| Cash | Supplies | | | | |
| −2,500 | +2,500 | = | 0 | + | 0 |

Changes the composition of assets but not the total.

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (2) | Supplies | 126 | 2,500 | |
| | Cash | 101 | | 2,500 |

**4 POST**

| Supplies | | | 126 |
|---|---|---|---|
| (2) | 2,500 | | |

| Cash | | | 101 |
|---|---|---|---|
| (1) | 30,000 | (2) | 2,500 |

**1 IDENTIFY** FastForward receives $30,000 cash from Chas Taylor as an owner investment.

**2 ANALYZE**

| Assets | = | Liabilities | + | Equity |
|---|---|---|---|---|
| Cash | | | | C. Taylor, Capital |
| +30,000 | = | 0 | | +30,000 |

**3 RECORD**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (1) | Cash | 101 | 30,000 | |
| | C. Taylor, Capital | 301 | | 30,000 |

**4 POST**

| Cash | | 101 |
|---|---|---|
| (1) | 30,000 | |

| C. Taylor, Capital | | 301 |
|---|---|---|
| | (1) | 30,000 |

**General Journal**

| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| 2021 Dec. 1 | Cash | 101 | 30,000 | |
| | C. Taylor, Capital | 301 | | 30,000 |
| | *Receive investment by owner.* | | | |

**General Ledger**

Cash — Account No. 101

| Date | Explanation | PR | Debit | Credit | Balance |
|---|---|---|---|---|---|
| 2021 Dec. 1 | | G1 | 30,000 | | 30,000 |

C. Taylor, Capital — Account No. 301

| Date | Explanation | PR | Debit | Credit | Balance |
|---|---|---|---|---|---|
| 2021 Dec. 1 | | G1 | | 30,000 | 30,000 |

Key:

(A) Identify debit account in ledger: enter date, journal page, amount, and balance (red line).

(B) Enter the debit account number from the ledger in the PR column of the journal (blue line).

(C) Identify credit account in ledger: enter date, journal page, amount, and balance (gold line).

(D) Enter the credit account number from the ledger in the PR column of the journal (green line).

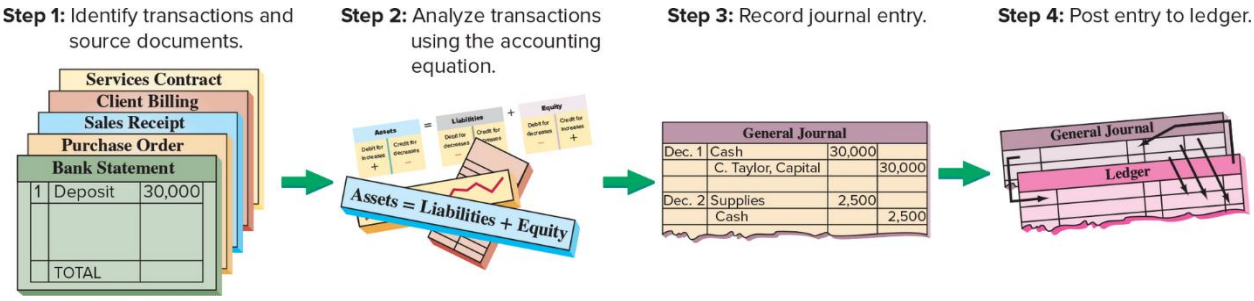
## General Ledger

Cash — Account No. 101

| Date | Explanation | PR | Debit | Credit | Balance |
|---|---|---|---|---|---|
| 2021 Dec. 1 | | G1 | 30,000 | | 30,000 |
| Dec. 2 | | G1 | | 2,500 | 27,500 |
| Dec. 3 | | G1 | | 26,000 | 1,500 |
| Dec. 10 | | G1 | 4,200 | | 5,700 |

## General Journal

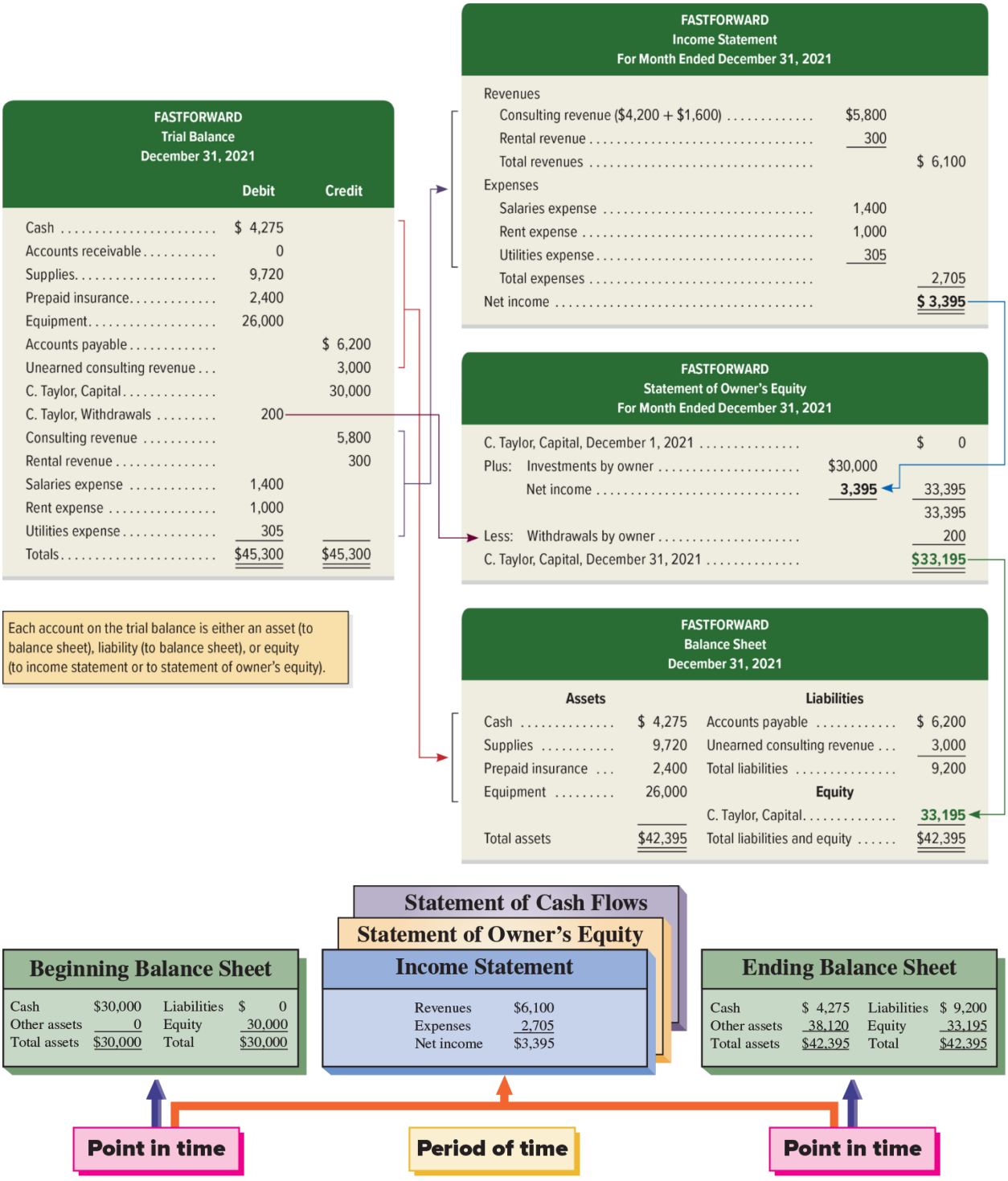
| Date | Account Titles and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| 2021 (a) Dec. 1 | (b) Cash | | 30,000 | |
| | (c) C. Taylor, Capital | | | 30,000 |
| | *Receive investment by owner.* (d) | | | |
| | | | | |
| Dec. 2 | Supplies | | 2,500 | |
| | Cash | | | 2,500 |
| | *Purchase supplies for cash.* | | | |




TRIAL BALANCE AND FINANCIAL STATEMENTS P1 Prepare financial statements from a trial balance. A trial balance is a list of all ledger accounts and their balances at a point in time. It is not a financial statement but a tool for checking equality of debits and credits in the ledger. Exhibit 2.14 shows the trial balance for FastForward after its 16 entries are posted to the ledger. (This is an unadjusted trial balance. Chapter 3 explains adjustments.) EXHIBIT 2.14 Trial Balance (Unadjusted) Table Summary: A three-line statement heading tops the table. The two columns on the right are debit and credit. The leftmost column lists the various accounts. Of the rows, the first five contain debit entries, no credit entries; the next three contain credit entries, no debit entries; C. Taylor, withdrawals lists a debit entry, but no credit. The following rows contain credit, no debit, entries; then three rows of debit, no credit, entries. The final row is Totals with both debit and credit entries. FASTFORWARD Trial Balance December 31, 2021 Debit Credit Cash $ 4,275 Accounts receivable 0 Supplies 9,720 Prepaid insurance 2,400 Equipment 26,000 Accounts payable $ 6,200 Unearned consulting revenue 3,000 C. Taylor, Capital 30,000 C. Taylor, Withdrawals 200 Consulting revenue 5,800 Rental revenue 300 Salaries expense 1,400 Rent expense 1,000 Utilities expense 305 Totals $45,300 $45,300 Preparing a Trial Balance Preparing a trial balance has three steps. List each account title and its amount (from the ledger) in the trial balance. Compute the total of debit balances and the total of credit balances. Verify (prove) total debit balances equal total credit balances. Page 59 The total of debit balances equals the total of credit balances for the trial balance in Exhibit 2.14. Equality of these two totals does not guarantee that no errors were made. For example, the column totals will be equal when a debit or credit of a correct amount is made to a wrong account. Another error not identified with a trial balance is when equal debits and credits of an incorrect amount are entered. Searching for Errors If the trial balance does not balance (when its columns are not equal), the error(s) must be found and corrected. An efficient way to search for an error is to check the journalizing, posting, and trial balance preparation in reverse order. Step 1 is to verify that the trial balance columns are correctly added. If step 1 does not find the error, step 2 is to verify that account balances are accurately entered from the ledger. Step 3 is to see whether a debit (or credit) balance is mistakenly listed in the trial balance as a credit (or debit). A clue to this error is when the difference between total debits and total credits

equals twice the amount of the incorrect account balance. Step 4 is to recompute each account balance in the ledger. Step 5 is to verify that each journal entry is properly posted. Step 6 is to verify that the original journal entry has equal debits and credits. At this point, the errors should be uncovered. Example: If a credit to Unearned Revenue was incorrectly posted to the Revenue ledger account, would the ledger still balance? Answer Start revealed content. Answer: The ledger would balance, but liabilities would be understated, equity would be overstated, and income would be overstated. Financial Statements Prepared from Trial Balance Financial Statements across Time How financial statements are linked in time is shown in Exhibit 2.15. A balance sheet reports an organization's financial position at a point in time. The income statement, statement of owner's equity, and statement of cash flows report financial performance over a period of time. The three statements in the middle column of Exhibit 2.15 explain how financial position changes from the beginning to the end of a reporting period. EXHIBIT 2.15 Links between Financial Statements across Time A one-year (annual) reporting period is common, as are semiannual, quarterly, and monthly periods. The one-year reporting period is called the accounting, or fiscal, year. Businesses whose accounting year begins on January 1 and ends on December 31 are called calendar-year companies. Financial Statement Preparation This section shows how to prepare financial statements from the trial balance. (These are unadjusted statements. Chapter 3 explains adjustments.) We prepare these statements in the following order. 1 Income Statement An income statement reports revenues earned minus expenses incurred over a period of time. FastForward's income statement for December is shown at the top right side of Exhibit 2.16. Information about revenues and expenses is taken from the trial balance on the left side. Net income of $3,395 is the bottom line for the income statement. Owner investments and withdrawals are not part of income. Page 60 Point: An income statement also is called an earnings statement, a statement of operations, or a P&L (profit and loss) statement. A balance sheet also is called a statement of financial position. EXHIBIT 2.16 Financial Statements Prepared from Trial Balance Point: A statement's heading lists the 3 W's: Who—name of organization, What—name of statement, When—point in time or period of time. Point: Arrow lines show how the statements are linked. Point: To foot a column of numbers is to add them. 2 Statement of Owner's Equity The statement of owner's equity reports how equity changes over the reporting period. FastForward's statement of owner's equity is the second report in Exhibit 2.16. It shows the $30,000 owner investment, the $3,395 of net income, the $200 withdrawal, and the $33,195 end-of-period capital balance. (The beginning balance in the statement of owner's equity is rarely zero, except in the first period of operations. The beginning balance in January 2022 is $33,195, which is December 2021's ending balance.) 3 Balance Sheet The balance sheet reports the financial position of a company at a point in time. FastForward's balance sheet is the third report in Exhibit

2.16. This statement shows financial condition at the close of business on December 31. The left side of the balance sheet lists its assets: cash, supplies, prepaid insurance, and equipment. The liabilities section of the balance sheet shows that it owes $6,200 to creditors and $3,000 in services to customers who paid in advance. The equity section shows an ending capital balance of $33,195. See the link between the ending balance of the statement of owner's equity and the owner capital balance. (This presentation of the balance sheet is called the account form: assets on the left and liabilities and equity on the right. Another presentation is the report form: assets on top, followed by liabilities and then equity. Either presentation is acceptable.) Page 61 Presentation Issues Dollar signs are not used in journals and ledgers. They do appear in financial statements and other reports such as trial balances. We usually put dollar signs beside only the first and last numbers in a column. Ethical Risk marekuliasz/Shutterstock Accounting Quality Recording valid and accurate transactions enhances the quality of financial statements. Roughly 30% of employees in IT report observing misconduct such as falsifying accounting data. They also report increased incidences of such misconduct in recent years. Source: KPMG. ■ NEED-TO-KNOW 2-4 Preparing Trial Balance P1 Prepare a trial balance for Accel using the following information from its current year ended December 31. Accounts payable $ 7,500 Wages payable 13,000 Rent expense 7,000 Cash 17,000 Services revenue 41,000 B. Accel, Withdrawals 12,500 Land 30,000 Equipment 27,000 Wages expense 21,000 Accounts receivable 5,000 B. Accel, Capital 58,000 Solution Table Summary: A three-line statement heading tops the table. The two columns on the right are debit and credit. The leftmost column lists the various accounts. Of the rows, the first four contain debit entries, no credit entries; the next three contain credit entries, no debit entries; owner withdrawals lists a debit entry, but no credit. The following row contains credit entry, but no debit; then two rows of debit, no credit, entries. The final row is Totals with both debit and credit entries. ACCEL Trial Balance December 31 Debit Credit Cash $ 17,000 Accounts receivable 5,000 Equipment 27,000 Land 30,000 Accounts payable $ 7,500 Wages payable 13,000 B. Accel, Capital 58,000 B. Accel, Withdrawals 12,500 Services revenue 41,000 Rent expense 7,000 Wages expense 21,000 Totals $119,500 $119,500 Do More: QS 2-12 through QS 2-17, E 2-12, E 2-14, E 2-20 through E 2-28




Decision Analysis Debt Ratio A2 Compute the debt ratio and describe its use in analyzing financial condition. It is important to assess a company's risk of failing to pay its debts. Companies finance their assets with either liabilities or equity. A company that finances a relatively large portion of its assets with liabilities is said to have higher financial leverage. Higher financial leverage means greater risk because liabilities must be repaid and often

require regular interest payments (equity financing does not). One measure of the risk associated with liabilities is the debt ratio, as defined in Exhibit 2.17. EXHIBIT 2.17 Debt Ratio Page 62 Costco's total liabilities, total assets, and debt ratio for the past three years are shown in Exhibit 2.18. Costco's debt ratio ranges from a low of 0.66 to a high of 0.70. Its ratio exceeds Walmart's in each of the last three years, suggesting a slightly higher-than-average risk from financial leverage. So, is financial leverage good or bad for Costco? The answer: If Costco is making more money with this debt than it is paying the lenders, then it is successfully borrowing money to make more money. A company's use of debt can turn unprofitable quickly if its return from that money drops below the rate it is paying lenders. EXHIBIT 2.18 Computation and Analysis of Debt Ratio Company ($ millions) Current Year 1 Year Ago 2 Years Ago Costco Total liabilities $29,816 $27,727 $25,268 Total assets $45,400 $40,830 $36,347 Debt ratio 0.66 0.68 0.70 Walmart Debt ratio 0.64 0.60 0.59 Decision Maker Investor You consider buying stock in Converse. As part of your analysis, you compute the company's debt ratio for 2019, 2020, and 2021 as 0.35, 0.74, and 0.94, respectively. Based on the debt ratio, is Converse a low-risk investment? Has the risk of buying Converse stock changed over this period? (The industry debt ratio averages 0.40.) ■ Answer

NEED-TO-KNOW 2-5 COMPREHENSIVE Journalizing and Posting Transactions, Statement Preparation, and Debt Ratio Jasmine Worthy started a haircutting business called Expressions. The following events occurred during its first month. Dec. 1 Worthy invested $3,000 cash and $15,000 of equipment in Expressions. 2 Expressions paid $600 cash for furniture for the shop. 3 Expressions paid $500 cash to rent space in a strip mall for December. 4 Expressions purchased $1,200 of equipment on credit (recorded as accounts payable). 15 Expressions opened for business on December 5. Cash received from haircutting services in the first week and a half of business (ended December 15) was $825. 16 Expressions provided $100 of haircutting services on credit. 17 Expressions received a $100 check for services previously rendered on credit. 18 Expressions paid $125 to an assistant for hours worked for the grand opening. 31 Cash received from services provided during the second half of December was $930. 31 Expressions paid $400 cash toward the account payable from December 4. 31 Worthy made a $900 cash withdrawal from the company for personal use. Required Prepare general journal entries for the transactions. Account numbers are taken from the Chart of Accounts near the end of the text. Post the journal entries from part 1 to ledger accounts. Prepare a trial balance as of December 31. Prepare an income statement for December. Prepare a statement of owner's equity for December. Prepare a balance sheet as of December 31. Determine the debt ratio as of December 31. Extended Analysis In the coming months, Expressions will have new business transactions. Identify which accounts are debited and which are

credited for the following transactions. Purchase supplies with cash. Purchase supplies on credit. Pay cash for future insurance coverage. Receive cash for services to be provided in the future. Page 63 SOLUTION General journal entries. Table Summary: Table contains general journal entries with multiple lines for each data listed in first column. Entries contain one debit row, one credit row, and one description row for a total of three rows, except for the first entry that contains two debit rows. First row for each date will have entries in Account Title, P R, and debit columns and a blank credit column; second row will have entries in Account Title, P R, and credit columns and a blank debit column; third row has description in second column with third, fourth, and fifth columns blank. General Journal Date Account Titles and Explanation PR Debit Credit Dec. 1 Cash 101 3,000 Equipment 165 15,000 J. Worthy, Capital 301 18,000 Owner investment. 2 Furniture 161 600 Cash 101 600 Purchased furniture for cash. 3 Rent Expense 640 500 Cash 101 500 Paid rent for December. 4 Equipment 165 1,200 Accounts Payable 201 1,200 Purchased equipment on credit. 15 Cash 101 825 Services Revenue 403 825 Cash receipts from first half of December. 16 Accounts Receivable 102 100 Services Revenue 403 100 Record revenue for services provided on credit. 17 Cash 101 100 Accounts Receivable 102 100 Record cash received as payment on credit. 18 Wages Expense 623 125 Cash 101 125 Paid wages to assistant. 31 Cash 101 930 Services Revenue 403 930 Cash receipts from second half of December. 31 Accounts Payable 201 400 Cash 101 400 Paid cash toward accounts payable. 31 J. Worthy, Withdrawals 302 900 Cash 101 900 Cash withdrawal by owner. Post journal entries from part 1 to the ledger accounts (in balance column format). Page 64 Prepare a trial balance from the ledger—see how it feeds the financial statements. 8a.Supplies debited Cash credited 8c.Prepaid Insurance debited Cash credited 8b.Supplies debited Accounts Payable credited 8d.Cash debited Unearned Revenue credited

Summary: Cheat Sheet SYSTEM OF ACCOUNTS Asset Accounts Cash: A company’s cash balance. Accounts receivable: Held by a seller; promises of payment from customers to sellers. Accounts receivable are increased by credit sales; often phrased as sales on account or on credit. Notes receivable: Held by a lender; a borrower’s written promise to pay the lender a specific sum of money on a specified future date. Prepaid accounts (or expenses): Assets that arise from prepayment of future expenses. Examples are prepaid insurance and prepaid rent. More assets: Supplies, equipment, buildings, and land. Liability Accounts Accounts payable: Held by a buyer; a buyer’s promise to pay a seller later for goods or services received. More generally, payables arise from purchases of merchandise for resale, supplies, services, and other items. Notes payable: Held by a borrower; a written promissory note to pay a future amount at a future date. Unearned

revenue: A liability to be settled in the future when a company delivers its products or services. When a customer pays in advance for products or services, the seller records this receipt as unearned revenue. Accrued liabilities: Amounts owed that are not yet paid. Examples are wages payable, taxes payable, and interest payable. Equity Accounts Owner capital: When an owner invests in a company, the company increases both assets and equity. Owner withdrawals: When an owner withdraws assets for personal use, it decreases both company assets and total equity. Revenue: Amounts received from sales of products and services to customers. Revenue increases equity. Expenses: Costs of providing products and services. Expenses decrease equity. DEBITS AND CREDITS Debit: Left side of an account is called the debit side, or Dr. Credit: Right side of an account is called the credit side, or Cr. Double-entry accounting transaction rules: At least two accounts are involved, with at least one debit and one credit. Total amount debited must equal total amount credited. Debits and credits in accounting equation: Net increases or decreases on one side have equal net effects on the other side. Left side is the normal balance side for assets. Right side is the normal balance side for liabilities and equity. RECORDING TRANSACTIONS Receive owner investment: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (1) Cash 101 30,000 C. Taylor, Capital 301 30,000 Purchase supplies for cash: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (2) Supplies 126 2,500 Cash 101 2,500 Purchase equipment for cash: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (3) Equipment 167 26,000 Cash 101 26,000 Purchase supplies on credit: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (4) Supplies 126 7,100 Accounts Payable 201 7,100 Provide services for cash: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for

each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (5) Cash 101 4,200 Consulting Revenue 403 4,200 Payment of expenses in cash: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (6) Rent Expense 640 1,000 Cash 101 1,000 Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (7) Salaries Expense 622 700 Cash 101 700 Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (15) Utilities Expense 690 305 Cash 101 305 Provide consulting and rental services on credit: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (8) Accounts Receivable 106 1,900 Consulting Revenue 403 1,600 Rental Revenue 406 300 Receipt of cash from receivable: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (9) Cash 101 1,900 Accounts Receivable 106 1,900 Partial payment of accounts payable: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (10) Accounts Payable 201 900 Cash 101 900 Withdrawal of cash by owner: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first

line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (11) C. Taylor, Withdrawals 302 200 Cash 101 200 Receipt of cash for future services: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (12) Cash 101 3,000 Unearned Consulting Revenue 236 3,000 Pay cash for future insurance coverage: Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Date Account Titles and Explanation PR Debit Credit (13) Prepaid Insurance 128 2,400 Cash 101 2,400 FINANCIAL STATEMENTS

Key Terms Account (45) Account balance (49) Balance column account (51) Chart of accounts (48) Compound journal entry (54) Credit (49) Creditors (47) Debit (49) Debt ratio (61) Debtors (47) Double-entry accounting (49) General journal (51) General ledger (45) Journal (50) Journalizing (50) Ledger (45) Posting (50) Posting reference (PR) column (51) Source documents (45) T-account (49) Trial balance (58) Unearned revenue (47)

Multiple Choice Quiz Amalia Company received its utility bill for the current period of $700 and immediately paid it. Its journal entry to record this transaction includes a Credit to Utility Expense for $700. Debit to Utility Expense for $700. Debit to Accounts Payable for $700. Debit to Cash for $700. Credit to Accounts Receivable for $700. On May 1, Ruby Lawn Service collected $2,500 cash from a customer in advance of five months of lawn service. Ruby's journal entry to record this transaction includes a Credit to Unearned Revenue for $2,500. Debit to Services Revenue for $2,500. Credit to Cash for $2,500. Debit to Unearned Revenue for $2,500. Credit to Accounts Payable for $2,500. Liang Shue contributed $250,000 cash and land worth $500,000 to open his new business, Shue Consulting. Which of the following journal entries does Shue Consulting make to record this transaction? a. Cash 750,000 L. Shue, Capital 750,000 b. L. Shue, Capital 750,000 Accounts receivable 750,000 c. Cash 250,000 Land 500,000 L. Shue, Capital 750,000 d. L. Shue, Capital 750,000 Cash 250,000 Land 500,000 A trial balance prepared at year-end shows total credits exceed total debits by $765. This discrepancy could have been caused by An error in the general journal where a $765 increase in Accounts Payable

was recorded as a $765 decrease in Accounts Payable. The ledger balance for Accounts Payable of $7,650 being entered in the trial balance as $765. A general journal error where a $765 increase in Accounts Receivable was recorded as a $765 increase in Cash. The ledger balance of $850 in Accounts Receivable was entered in the trial balance as $85. An error in recording a $765 increase in Cash as a credit. Bon Company has total assets of $1,000,000, liabilities of $400,000, and equity of $600,000. What is its debt ratio? 250% 167% 67% 150% 40% ANSWERS TO MULTIPLE CHOICE QUIZ b; debit Utility Expense for $700, and credit Cash for $700. a; debit Cash for $2,500, and credit Unearned Revenue for $2,500. c d e; Debt ratio = $400,000/$1,000,000 = 40%

QUICK STUDY Select Quick Study and Exercise assignments feature Guided Example videos, called “Hints” in Connect. Hints use different numbers, and instructors can turn this feature on or off. QS 2-1 Identifying source documents C1 Identify the items from the following list that are likely to serve as source documents. Sales receipt Trial balance Balance sheet Prepaid insurance account Invoice from supplier Company revenue account Income statement Bank statement Telephone bill QS 2-2 Identifying financial statement accounts C1 Classify each of the following accounts as an Asset, Liability, or Equity account. Cash Prepaid Rent Office Supplies Prepaid Insurance Office Equipment Notes Payable Accounts Payable Unearned Rent Revenue Notes Receivable QS 2-3 Reading a chart of accounts C1 A chart of accounts is a list of all ledger accounts and an identification number for each. One example of a chart of accounts is near the end of the book on pages CA and CA-1. Using that chart, identify the following accounts as either an Asset, Liability, Equity, Revenue, or Expense account, along with its identification number. Advertising Expense Rent Revenue Rent Receivable Machinery Accounts Payable Furniture Notes Payable Prepaid Insurance Utilities Expense Page 67 QS 2-4 Identifying normal balance C2 Identify the normal balance (debit or credit) for each of the following accounts. Rideshare Revenue Office Supplies Cash Wages Expense Accounts Receivable Prepaid Rent Wages Payable Building Unearned Revenue QS 2-5 Linking debit or credit with normal balance C2 Indicate whether a debit or credit decreases the normal balance of each of the following accounts. Interest Payable Accounts Receivable Prepaid Insurance Buildings Accounts Payable Land QS 2-6 Analyzing debit or credit by account C2 Identify whether a debit or credit results in the indicated change for each of the following accounts. To increase Land To decrease Cash To increase Consulting Revenue To increase Salaries Expense To decrease Unearned Revenue To decrease Prepaid Rent To increase Notes Payable To decrease Accounts Receivable To increase Accounts Payable To increase Store Equipment QS 2-7 Computing T-account balance C2 Determine the ending balance of each of the following T-accounts. Cash 100 50 300 60 20 Accounts Payable 2,000 8,000 2,700 Supplies 10,000 3,800 1,100 Accounts Receivable 600 150 150 150

100 Wages Payable 700 700 Cash 11,000 4,500 800 6,000 100 1,300 QS 2-8 Analyzing transactions and preparing journal entries A1 For each transaction, (1) analyze the transaction using the accounting equation, (2) record the transaction in journal entry form, and (3) post the entry using T-accounts to represent ledger accounts. Use the following partial chart of accounts—account numbers in parentheses: Cash (101); Accounts Receivable (106); Office Supplies (124); Trucks (153); Equipment (167); Accounts Payable (201); Unearned Landscaping Revenue (236); D. Tyler, Capital (301); D. Tyler, Withdrawals (302); Landscaping Revenue (403); Wages Expense (601); and Landscaping Expense (696). On May 15, DeShawn Tyler opens a landscaping company called Elegant Lawns by investing $7,000 in cash along with equipment having a $3,000 value. On May 21, Elegant Lawns purchases office supplies on credit for $500. On May 25, Elegant Lawns receives $4,000 cash for performing landscaping services. On May 30, Elegant Lawns receives $1,000 cash in advance of providing landscaping services to a customer. QS 2-9 Preparing journal entries A1 Prepare general journal entries for the following transactions of Green Energy Company. Use the following partial chart of accounts: Cash; Accounts Receivable; Supplies; Accounts Payable; Consulting Revenue; and Utilities Expense. May 1 The company provided $2,000 of sustainability consulting services on credit to a customer. 3 The company purchased $300 of energy-efficient supplies on credit. 9 The company collected $500 cash as partial payment of the May 1 consulting revenue. 20 The company paid $300 cash toward the payable for energy-efficient supplies. 31 The company paid $100 cash for May's renewable energy utilities. Page 68 QS 2-10 Analyzing transactions using accounting equation A1 Analyze each transaction in QS 2-9 by showing its effects on the accounting equation—specifically, identify the accounts and amounts (including + or −) for each transaction. QS 2-11 Preparing compound journal entries A1 Prepare compound journal entries for each transaction. The owner, J. Cruz, invests $6,500 cash and $3,500 of equipment in the company. The company acquires $2,000 of supplies by paying $500 cash and putting $1,500 on credit (accounts payable). QS 2-12 Identifying a posting error P1 A trial balance has total debits of $20,000 and total credits of $24,500. Which one of the following errors would create this imbalance? A $2,250 debit to Utilities Expense in a journal entry was incorrectly posted to the ledger as a $2,250 credit, leaving the Utilities Expense account with a $3,000 debit balance. A $4,500 debit to Salaries Expense in a journal entry was incorrectly posted to the ledger as a $4,500 credit, leaving the Salaries Expense account with a $750 debit balance. A $2,250 credit to Consulting Revenue in a journal entry was incorrectly posted to the ledger as a $2,250 debit, leaving the Consulting Revenue account with a $6,300 credit balance. A $2,250 debit posting to Accounts Receivable was posted mistakenly to Land. A $4,500 debit posting to Equipment was posted mistakenly to Cash. An entry debiting Cash and crediting Accounts Payable for $4,500 was mistakenly not posted. QS 2-13 Classifying accounts in financial statements P1

Indicate the financial statement on which each of the following items appears: income statement, statement of owner's equity, or balance sheet. Services Revenue Interest Payable Accounts Receivable Salaries Expense Equipment Prepaid Insurance Buildings Rental Revenue Unearned Revenue Office Supplies Interest Expense Insurance Expense QS 2-14 Preparing a trial balance P1 Lawson Consulting had the following accounts and amounts on December 31. Prepare a December 31 trial balance. Cash $5,000 Accounts receivable 4,500 Equipment 6,500 Accounts payable 3,000 I. Lawson, Capital 10,500 I. Lawson, Withdrawals 1,500 Services revenue 12,000 Rent expense 2,000 Wages expense 6,000 QS 2-15 Preparing an income statement P1 Use the information in QS 2-14 to prepare a December income statement for Lawson Consulting. The company began operations on December 1. QS 2-16 Preparing a statement of owner's equity P1 Use the information in QS 2-14 to prepare a December statement of owner's equity for Lawson Consulting. The I. Lawson, Capital account balance at December 1 was $0. Hint: Net income for December is $4,000 and the owner invested $10,500 cash in the company on December 2. QS 2-17 Preparing a balance sheet P1 Use the information in QS 2-14 to prepare a December 31 balance sheet for Lawson Consulting. Hint: The ending I. Lawson, Capital account balance as of December 31 is $13,000. QS 2-18 Interpreting debt ratio A2 The debt ratio for Deutsche Auto for each of the last three years follows. Over this three-year period, did the company's risk from financial leverage increase or decrease? Current Year 1 Year Ago 2 Years Ago Debt ratio 61% 45% 37% Page 69 QS 2-19 Computing and using the debt ratio A2 Home Demo reports the following: Total liabilities = $38,633 million and Total assets = $42,966 million. (a) Compute Home Demo's debt ratio. (b) Assuming Lows Hardware (a competitor) has a debt ratio of 60.0%, which company has higher risk from financial leverage?

EXERCISES Exercise 2-1 Steps in analyzing and recording transactions C1 Order the following steps in the accounting process that focus on analyzing and recording transactions. Prepare and analyze the trial balance. Analyze each transaction from source documents. Record relevant transactions in a journal. Post journal information to ledger accounts. Exercise 2-2 Identifying source documents from accounting processes C1 Identify the source document for NDX Company in each of the following accounting processes. A customer purchases merchandise with a credit card. NDX uses the electronic sales receipt to record transaction details in its accounting system. NDX purchases goods and receives a bill from the supplier. Details from the bill are captured and entered in the accounting database, which is stored in the cloud. An NDX employee receives a bank statement each month on her company e-mail. The statement is used to record bank fees incurred for that month. Exercise 2-3 Identifying and classifying accounts C1 Identify the

item that best completes each of the descriptions below. Asset Equity Account Liability Three Balance sheet accounts are arranged into general categories. The owner's claim on a company's assets is called . Accounts Payable and Notes Payable are examples of accounts. Accounts Receivable, Prepaid Accounts, Supplies, and Land are examples of accounts. A(n) is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item. Exercise 2-4 Identifying a ledger and chart of accounts C1 Identify the item that best completes each of the descriptions below. Chart General ledger Journal Account Source document A(n) of accounts is a list of all accounts a company uses, not including account balances. The is a record containing all accounts used by a company, including account balances. A(n) describes transactions entering an accounting system, such as a purchase order. Increases and decreases in a specific asset, liability, equity, revenue, or expense are recorded in a(n) . A(n) has a complete record of every transaction recorded. Exercise 2-5 Identifying type and normal balances of accounts C2 For each of the following, (1) identify the account as an asset, liability, equity, revenue, or expense; (2) identify the normal balance of the account; and (3) enter debit or credit to identify the kind of entry that would increase the account balance. Land Cash Legal Expense Prepaid Insurance Accounts Receivable Tour Service Revenue Unearned Revenue Services Revenue Equipment Notes Payable Exercise 2-6 Analyzing effects of a compound entry A1 Groro Co. bills a client $62,000 for services provided and agrees to accept the following three items in full payment: (1) $10,000 cash, (2) $80,000 of equipment, and (3) $28,000 note payable owed on the equipment. For this transaction, (a) analyze the transaction using the accounting equation, (b) record the transaction in journal entry form, and (c) post the entry using T-accounts to represent ledger accounts. Use the following partial chart of accounts—account numbers in parentheses: Cash (101); Supplies (124); Equipment (167); Accounts Payable (201); Note Payable (245); and Services Revenue (403). Page 70 Exercise 2-7 Analyzing account entries and balances A1 Use the information in each of the following separate cases to calculate the unknown amount. Corentine Co. had $152,000 of accounts payable on September 30 and $132,500 on October 31. Total purchases on credit during October were $281,000. Determine how much cash was paid on accounts payable during October. On September 30, Valerian Co. had a $102,500 balance in Accounts Receivable. During October, the company collected $102,890 from its credit customers. The October 31 balance in Accounts Receivable was $89,000. Determine the amount of sales on credit that occurred in October. During October, Alameda Company had $102,500 of cash receipts and $103,150 of cash disbursements. The October 31 Cash balance was $18,600. Determine how much cash the company had at the close of business on September 30. Exercise 2-8 Preparing journal entries A1 Prepare general journal entries for the following transactions of Sustain Company. June 1 T. James, owner, invested $11,000 cash in Sustain Company. 2 The company purchased $4,000 of furniture

made from reclaimed wood on credit. 3 The company paid $600 cash for a 12-month prepaid insurance policy on the reclaimed furniture. 4 The company billed a customer $3,000 for sustainability services provided. 12 The company paid $4,000 cash toward the payable from the June 2 furniture purchase. 20 The company collected $3,000 cash for services billed on June 4. 21 T. James invested an additional $10,000 cash in Sustain Company. 30 The company received $5,000 cash in advance of providing sustainability services to a customer. Exercise 2-9 Preparing general journal entries A1 Prepare general journal entries for the following transactions of a new company called Pose-for-Pics. Use the following partial chart of accounts: Cash; Supplies; Prepaid Insurance; Equipment; M. Harris, Capital; Services Revenue; and Utilities Expense. Aug. 1 M. Harris, the owner, invested $6,500 cash and $33,500 of photography equipment in the company. 2 The company paid $2,100 cash for an insurance policy covering the next 24 months. 5 The company purchased supplies for $880 cash. 20 The company received $3,331 cash from taking photos for customers. 31 The company paid $675 cash for August utilities. Exercise 2-10 Recording transactions in balance column accounts A1 Open a ledger account for Cash in balance column format. Post general journal entries that impact cash from Exercise 2-9 to the ledger account for Cash, and enter the balance after each posting. Exercise 2-11 Analyzing transactions using accounting equation A1 Analyze each transaction in Exercise 2-9 by showing its effects on the accounting equation—specifically, identify the accounts and amounts (including + or −) for each transaction. Exercise 2-12 Preparing T-accounts (ledger) and a trial balance P1 Use the information in Exercise 2-9 to open these T-accounts: Cash; Supplies; Prepaid Insurance; Equipment; M. Harris, Capital; Services Revenue; and Utilities Expense. (1) Post the general journal entries to these T-accounts (which will serve as the ledger). (2) Prepare the August 31 trial balance. Exercise 2-13 Recording effects of transactions in T-accounts A1 For the following transactions of Spade Company, (1) prepare general journal entries and (2) post entries to T-accounts and calculate the ending balance of each T-account. Use the following accounts: Cash; Accounts Receivable; Supplies; Equipment; Accounts Payable; K. Spade, Capital; K. Spade, Withdrawals; Services Revenue; and Rent Expense. K. Spade, owner, invested $100,750 cash in the company. The company purchased supplies for $1,250 cash. The company purchased $10,050 of equipment on credit. The company received $15,500 cash for services provided to a customer. The company paid $10,050 cash to settle the payable for the equipment purchased in transaction c. The company billed a customer $2,700 for services provided. The company paid $1,225 cash for the monthly rent. The company collected $1,125 cash as partial payment for the account receivable created in transaction f. K. Spade withdrew $10,000 cash from the company for personal use. CheckCash ending balance, $94,850 Page 71 Exercise 2-14 Preparing a trial balance P1 After recording the transactions of Exercise 2-13 in T-accounts and calculating the balance of each account,

prepare a trial balance. Use May 31 as its report date. Exercise 2-15 Analyzing and journalizing transactions involving cash payments A1 Prepare general journal entries for the following transactions of Valdez Services. The company paid $2,000 cash for payment on a 6-month-old account payable for office supplies. The company paid $1,200 cash for the just-completed two-week salary of the receptionist. The company paid $39,000 cash for equipment purchased. The company paid $800 cash for this month's utilities. The owner, B. Valdez, withdrew $4,500 cash from the company for personal use. Transactions a, c, and e did not result in an expense. Match each transaction (a, c, and e) with one of the following reasons for not recording an expense. This transaction is a distribution of cash to the owner. Even though equity decreased, that decrease did not occur in the process of providing goods or services to customers. This transaction decreased cash in settlement of a previously existing liability (equity did not change). Supplies expense is recorded when assets are used, not necessarily when cash is paid. This transaction involves the purchase of an asset. The form of the company's assets changed, but total assets did not (and neither did equity). Exercise 2-16 Analyzing and journalizing transactions involving receipt of cash A1 Prepare general journal entries for the following transactions of Valdez Services. B. Valdez invested $20,000 cash in the company. The company provided services to a client and immediately received $900 cash. The company received $10,000 cash from a client in advance for services to be provided next year. The company received $3,500 cash from a client in partial payment of accounts receivable. Transactions a, c, and d did not yield revenue. Match each transaction (a, c, and d) with one of the following reasons for not recording revenue. This transaction changed the form of an asset from a receivable to cash. Total assets were not increased (revenue was recognized when the services were originally provided). This transaction brought in cash, but this is an owner investment. This transaction brought in cash, but it created a liability to provide services to the client in the next year. Exercise 2-17 Entering transactions into T-accounts A1 Fill in each of the following T-accounts for Belle Co.'s seven transactions listed here. The T-accounts represent Belle Co.'s general ledger. Code each entry with transaction numbers 1 through 7 (in order) for reference. D. Belle created a new business and invested $6,000 cash, $7,600 of equipment, and $12,000 in web servers. The company paid $4,800 cash in advance for prepaid insurance coverage. The company purchased $900 of supplies on credit. The company paid $800 cash for selling expenses. The company received $4,500 cash for services provided. The company paid $900 cash toward accounts payable. The company paid $3,400 cash for equipment. Cash Equipment D. Belle, Capital Supplies Web Servers Services Revenue Prepaid Insurance Accounts Payable Selling Expenses Exercise 2-18 Preparing general journal entries A1 Use information from Exercise 2-17 to prepare the general journal entries for Belle Co.'s first seven transactions. Page 72 Exercise 2-19 Identifying transactions from T-accounts A1 Chase Company posted

transactions (a through f) in the following T-accounts in December, its first month of operations. Prepare the six journal entries from which the postings were made. Cash a. 6,000 b. 2,000 c. 5,000 e. 3,000 f. 1,000 Chase, Capital a. 6,000 Supplies b. 2,000 d. 1,500 Services Revenue c. 5,000 Accounts Payable f. 1,000 d. 1,500 Rent Expense e. 3,000 Exercise 2-20 Preparing a trial balance from T-accounts P1 Use the T-accounts in Exercise 2-19 from Chase Company's first month of operations to prepare its December 31 trial balance. Exercise 2-21 Preparing a trial balance from data with a missing value P1 Prepare a December 31 trial balance for Jindal Co. using the following information and fill in the missing amount for Equipment (assume all data are correct). Cash $ 8,000 Accounts payable 4,000 Services revenue 20,000 Rent expense 3,000 Equipment __?__ Jindal, Withdrawals 500 Jindal, Capital 16,500 Wages expense 12,000 Accounts receivable 1,000 Unearned revenue 2,000 Exercise 2-22 Identifying effects of posting errors on the trial balance P1 Posting errors are identified in the following table. In column (1), enter the amount of the difference between the two trial balance columns (debit and credit) due to the error. In column (2), identify the trial balance column (debit or credit) with the larger amount if they are not equal. In column (3), identify the account(s) affected by the error. In column (4), indicate the amount by which the account(s) in column (3) is under- or overstated. Item (a) is completed as an example. Table Summary: Table lists the general journal posts, including date, account title, P R, and debit or credit amount, for each of the transactions. Journal entries include number under date; account name and amount debited on first line; account name and amount credited on second line. One entry has two lines for credited accounts. Description of Posting Error (1) Difference between Debit and Credit Columns (2) Column with the Larger Total (3) Identify Account(s) Incorrectly Stated (4) Amount That Account(s) Is Over- or Understated a. $3,600 debit to Rent Expense is posted as a $1,340 debit. $2,260 Credit Rent Expense Rent Expense understated $2,260 b. $6,500 credit to Cash is posted twice as two credits to Cash. c. $2,050 debit to Prepaid Insurance is posted as a debit to Insurance Expense. d. $38,000 debit to Machinery is posted as a debit to Accounts Payable. e. $5,850 credit to Services Revenue is posted as a $585 credit. f. $1,390 debit to Store Supplies is not posted. Exercise 2-23 Analyzing a trial balance error P1 You are told the column totals in a trial balance are not equal. After careful analysis, you discover only one error. Specifically, a correctly journalized credit purchase of an automobile for $18,950 is posted from the journal to the ledger with an $18,950 debit to Automobiles and another $18,950 debit to Accounts Payable. The Automobiles account has a debit balance of $37,100 on the trial balance. (1) Answer each of the following questions and (2) compute the dollar amount of any misstatement for parts a through d. Is the Debit column total of the trial balance overstated, understated, or correctly stated? Is the Credit column total of the trial balance overstated, understated, or correctly stated?Page 73 Is the Automobiles account balance

overstated, understated, or correctly stated in the trial balance? Is the Accounts Payable account balance overstated, understated, or correctly stated in the trial balance? If the Debit column total of the trial balance is $200,000 before correcting the error, what is the total of the Credit column before correction? Exercise 2-24 Computing net income P1 A company had the following assets and liabilities at the beginning and end of this year. Assets Liabilities Beginning of the year $ 60,000 $20,000 End of the year 105,000 36,000 Determine net income or net loss for the business during the year for each of the following separate cases. Owner made no investments in the business, and no withdrawals were made during the year. Owner made no investments in the business but did withdraw $15,000 during the year. Owner made no withdrawals during the year, but the owner did invest an additional $55,000 cash. Owner withdrew $15,000 during the year, but the owner did invest an additional $35,000 cash near year-end. Exercise 2-25 Preparing an income statement P1 Carmen Camry operates a consulting firm called Help Today, which began operations on December 1. On December 31, the company's records show the following selected accounts and amounts for the month of December. Use this information to prepare a December income statement for the business. Cash $25,360 Accounts receivable 22,360 Office supplies 5,250 Office equipment 20,000 Land 44,000 Accounts payable 10,500 C. Camry, Capital 102,000 C. Camry, Withdrawals 6,000 Consulting revenue 27,000 Rent expense 9,550 Salaries expense 5,600 Telephone expense 860 Miscellaneous expenses 520 Check  Net income, $10,470 Exercise 2-26 Preparing a statement of owner's equity P1 Use the information in Exercise 2-25 to prepare a December statement of owner's equity for Help Today. The C. Camry, Capital account balance at December 1 was $0, and the owner invested $102,000 in the company on December 2. Hint: Net income for December is $10,470. Exercise 2-27 Preparing a balance sheet P1 Use the information in Exercise 2-25 to prepare a December 31 balance sheet for Help Today. Hint: The ending C. Camry, Capital account balance as of December 31 is $106,470. Exercise 2-28 Analyzing changes in a company's equity P1 Compute the missing amount for each of the following separate companies in columns B through E. Exercise 2-29 Calculating and interpreting the debt ratio A2 Compute the debt ratio for each of the three companies. Which company has the most financial leverage?

| Company | Expenses | Total Assets | Net Income | Total Liabilities |
|---|---|---|---|---|
| DreamWorks | $22,000 | $ 40,000 | $19,000 | $30,000 |
| Pixar | 67,000 | 150,000 | 27,000 | 147,000 |
| Universal | 12,000 | 68,000 | 5,000 | 17,000 |

| | A | B | C | D | E |
|---|---|---|---|---|---|
| 1 | | CBS | ABC | CNN | NBC |
| 2 | Equity, beginning of year | $ 0 | $ 0 | $ 0 | $ 0 |
| 3 | Owner investments during the year | 110,000 | ? | 87,000 | 210,000 |
| 4 | Owner withdrawals during the year | ? | (47,000) | (10,000) | (55,000) |
| 5 | Net income (loss) for the year | 22,000 | 90,000 | (4,000) | ? |
| 6 | Equity, end of year | 104,000 | 85,000 | ? | 110,000 |

PROBLEM SET A Problem 2-1A Preparing and posting journal entries; preparing a trial balance P1 A1 Karla Tanner opened a web consulting business called Linkworks and completed the following transactions in its first month of operations. Apr. 1 Tanner invested $80,000 cash along with office equipment valued at $26,000 in the company. 2 The company prepaid $9,000 cash for 12 months' rent for office space. Hint: Debit Prepaid Rent for $9,000. 3 The company made credit purchases for $8,000 in office equipment and $3,600 in office supplies. Payment is due within 10 days. 6 The company completed services for a client and immediately received $4,000 cash. 9 The company completed a $6,000 project for a client, who must pay within 30 days. 13 The company paid $11,600 cash to settle the account payable created on April 3. 19 The company paid $2,400 cash for the premium on a 12-month prepaid insurance policy. Hint: Debit Prepaid Insurance for $2,400. 22 The company received $4,400 cash as partial payment for the work completed on April 9. 25 The company completed work for another client for $2,890 on credit. 28 Tanner withdrew $5,500 cash from the company for personal use. 29 The company purchased $600 of additional office supplies on credit. 30 The company paid $435 cash for this month's utility bill. Required Prepare general journal entries to record these transactions (use account titles listed in part 2). Open the following ledger accounts—their account numbers are in parentheses (use the balance column format): Cash (101); Accounts Receivable (106); Office Supplies (124); Prepaid Insurance (128); Prepaid Rent (131); Office Equipment (163); Accounts Payable (201); K. Tanner, Capital (301); K. Tanner, Withdrawals (302); Services Revenue (403); and Utilities Expense (690). Post journal entries from part 1 to the ledger accounts and enter the balance after each posting. Check (2) Ending balances: Cash, $59,465; Accounts Receivable, $4,490; Accounts Payable, $600 Prepare a trial balance as of April 30. (3) Total debits, $119,490 Problem 2-2A Preparing and posting journal entries; preparing a trial balance P1 A1 Aracel Engineering completed the following transactions in the month of June. J. Aracel, the owner, invested $100,000 cash, office equipment with a value of $5,000, and $60,000 of drafting equipment to launch the company. The company purchased land worth $49,000 for an office by paying $6,300 cash and signing a note payable for $42,700. The company purchased a portable building with $55,000 cash and moved it onto the land acquired in b. The company paid $3,000 cash for

the premium on an 18-month insurance policy. The company provided services to a client and collected $6,200 cash. The company purchased $20,000 of additional drafting equipment by paying $9,500 cash and signing a note payable for $10,500. The company completed $14,000 of services for a client. This amount is to be received in 30 days. The company purchased $1,150 of additional office equipment on credit. The company completed $22,000 of services for a customer on credit. The company purchased $1,333 of TV advertising on credit. The company collected $7,000 cash in partial payment from the client described in transaction g. The company paid $1,200 cash for employee wages. The company paid $1,150 cash to settle the account payable created in transaction h. The company paid $925 cash for repairs. J. Aracel withdrew $9,480 cash from the company for personal use. The company paid $1,200 cash for employee wages. The company paid $2,500 cash for advertisements on the web during June. Required Prepare general journal entries to record these transactions (use the account titles listed in part 2). Open the following ledger accounts—their account numbers are in parentheses (use the balance column format): Cash (101); Accounts Receivable (106); Prepaid Insurance (108); Office Equipment (163); Drafting Equipment (164); Building (170); Land (172); Accounts Payable (201); Notes Payable (250); J. Aracel, Capital (301); J. Aracel, Withdrawals (302); Services Revenue (403); Wages Expense (601); Advertising Expense (603); and Repairs Expense (604). Post the journal entries from part 1 to the accounts and enter the balance after each posting. Check (2) Ending balances: Cash, $22,945; Accounts Receivable, $29,000; Accounts Payable, $1,333 Prepare a trial balance as of the end of June. (3) Trial balance totals, $261,733 Page 75 Problem 2-3A Preparing and posting journal entries; preparing a trial balance P1 A1 Denzel Brooks opened a web consulting business called Venture Consultants and completed the following transactions in March. Mar. 1 Brooks invested $150,000 cash along with $22,000 in office equipment in the company. 2 The company prepaid $6,000 cash for six months' rent for an office. Hint: Debit Prepaid Rent for $6,000. 3 The company made credit purchases of office equipment for $3,000 and office supplies for $1,200. Payment is due within 10 days. 6 The company completed services for a client and immediately received $4,000 cash. 9 The company completed a $7,500 project on credit for a client, who must pay within 30 days. 12 The company paid $4,200 cash to settle the account payable created on March 3. 19 The company paid $5,000 cash for the premium on a 12-month insurance policy. Hint: Debit Prepaid Insurance for $5,000. 22 The company received $3,500 cash as partial payment for the work completed on March 9. 25 The company completed work for another client for $3,820 on credit. 29 Brooks withdrew $5,100 cash from the company for personal use. 30 The company purchased $600 of additional office supplies on credit. 31 The company paid $500 cash for this month's utility bill. Required Prepare general journal entries to record these transactions (use the account titles listed in part 2). Open the following ledger accounts—their account numbers are in

parentheses (use the balance column format): Cash (101); Accounts Receivable (106); Office Supplies (124); Prepaid Insurance (128); Prepaid Rent (131); Office Equipment (163); Accounts Payable (201); D. Brooks, Capital (301); D. Brooks, Withdrawals (302); Services Revenue (403); and Utilities Expense (690). Post the journal entries from part 1 to the ledger accounts and enter the balance after each posting. Check (2) Ending balances: Cash, $136,700; Accounts Receivable, $7,820; Accounts Payable, $600 Prepare a trial balance as of the end of March. (3) Total debits, $187,920 Problem 2-4A Recording transactions; posting to ledger; preparing a trial balance P1 A1 Business transactions completed by Hannah Venedict during the month of September are as follows. Venedict invested $60,000 cash along with office equipment valued at $25,000 in a new business named HV Consulting. The company purchased land valued at $40,000 and a building valued at $160,000. The purchase is paid with $30,000 cash and a note payable for $170,000. The company purchased $2,000 of office supplies on credit. Venedict invested an automobile in the company. The automobile has a value of $16,500. The company purchased $5,600 of additional office equipment on credit. The company paid $1,800 cash salary to an assistant. The company provided services to a client and collected $8,000 cash. The company paid $635 cash for this month's utilities. The company paid $2,000 cash to settle the account payable created in transaction c. The company purchased $20,300 of new office equipment by paying $20,300 cash. The company completed $6,250 of services on credit for a client, who must pay within 30 days. The company paid $1,800 cash salary to an assistant. The company received $4,000 cash in partial payment on the receivable created in transaction k. Venedict withdrew $2,800 cash from the company for personal use. Required Prepare general journal entries to record these transactions (use account titles listed in part 2). Open the following ledger accounts—their account numbers are in parentheses (use the balance column format): Cash (101); Accounts Receivable (106); Office Supplies (108); Office Equipment (163); Automobiles (164); Building (170); Land (172); Accounts Payable (201); Notes Payable (250); H. Venedict, Capital (301); H. Venedict, Withdrawals (302); Consulting Revenue (403); Salaries Expense (601); and Utilities Expense (602). Post the journal entries from part 1 to the ledger accounts and enter the balance after each posting. Check (2) Ending balances: Cash, $12,665; Office Equipment, $50,900 Prepare a trial balance as of the end of September. (3) Trial balance totals, $291,350 Page 76 Problem 2-5A Computing net income from equity analysis, preparing a balance sheet, and computing the debt ratio P1 A2 The accounting records of Nettle Distribution show the following assets and liabilities as of December 31 for Year 1 and Year 2. December 31 Year 1 Year 2 Cash $ 64,300 $ 15,640 Accounts receivable 26,240 19,100 Office supplies 3,160 1,960 Office equipment 44,000 44,000 Trucks 148,000 157,000 Building 0 80,000 Land 0 60,000 Accounts payable 3,500 33,500 Note payable 0 40,000 Required Prepare balance sheets for the business as of December 31 for Year 1 and

for Year 2. Hint: Report only total equity on the balance sheet and remember that total equity equals the difference between assets and liabilities. Compute net income for Year 2 by comparing total equity amounts for these two years and using the following information: During Year 2, the owner invested $35,000 additional cash in the business and withdrew $19,000 cash for personal use. Check (2) Net income, $6,000 Compute the Year 2 year-end debt ratio. (3) Debt ratio, 19.5% Problem 2-6A Analyzing account balances and reconstructing transactions P1 A1 Yi Min started an engineering firm called Min Engineering. He began operations and completed seven transactions in May, which included his initial investment of $18,000 cash. After those seven transactions, the ledger included the following accounts with normal balances. Cash $37,600 Office supplies 890 Prepaid insurance 4,600 Office equipment 12,900 Accounts payable 12,900 Y. Min, Capital 18,000 Y. Min, Withdrawals 3,370 Services revenue 36,000 Rent expense 7,540 Required Prepare a trial balance for this business as of the end of May. Check (1) Trial balance totals, $66,900 (2) Ending Cash balance, $37,600 The following seven transactions produced the account balances shown above. Y. Min invested $18,000 cash in the business. Paid $7,540 cash for monthly rent expense for May. Paid $4,600 cash in advance for the annual insurance premium beginning the next period. Purchased office supplies for $890 cash. Purchased $12,900 of office equipment on credit (with accounts payable). Received $36,000 cash for services provided in May. Y. Min withdrew $3,370 cash from the company for personal use. Prepare a Cash T-account, enter the cash effects (if any) of each transaction, and compute the ending Cash balance. Code each entry in the T-account with one of the transaction codes a through g. Problem 2-7A Preparing an income statement, statement of owner's equity, and balance sheet P1 Angela Lopez owns and manages a consulting firm called Metrix, which began operations on December 1. On December 31, Metrix shows the following selected accounts and amounts for the month of December. Cash $8,000 Accounts receivable 3,500 Notes receivable 2,500 Office supplies 1,500 Prepaid insurance 1,000 Equipment 4,000 Accounts payable 1,300 Notes payable 2,400 Unearned revenue 300 A. Lopez, Capital 11,600 A. Lopez, Withdrawals 2,000 Consulting revenue 12,000 Rental revenue 500 Salaries expense 3,000 Rent expense 2,000 Advertising expense 400 Utilities expense 200Page 77 Required Prepare a December income statement for the business. Prepare a December statement of owner's equity. The A. Lopez, Capital account balance at December 1 was $0, and the owner invested $11,600 cash in the company on December 2. Prepare a December 31 balance sheet. Hint: Use the A. Lopez, Capital account balance calculated in part 2.

PROBLEM SET B Problem 2-1B Preparing and posting journal entries; preparing a trial balance P1 A1 Humble Management Services opened for business and completed these

transactions in September. Sep. 1 H. Humble, the owner, invested $38,000 cash along with office equipment valued at $15,000 in the company. 2 The company prepaid $9,000 cash for 12 months' rent for office space. Hint: Debit Prepaid Rent for $9,000. 4 The company made credit purchases for $8,000 in office equipment and $2,400 in office supplies. Payment is due within 10 days. 8 The company completed work for a client and immediately received $3,280 cash. 12 The company completed a $15,400 project for a client, who must pay within 30 days. 13 The company paid $10,400 cash to settle the payable created on September 4. 19 The company paid $1,900 cash for the premium on an 18-month insurance prepaid policy. Hint: Debit Prepaid Insurance for $1,900. 22 The company received $7,700 cash as partial payment for the work completed on September 12. 24 The company completed work for another client for $2,100 on credit. 28 H. Humble withdrew $5,300 cash from the company for personal use. 29 The company purchased $550 of additional office supplies on credit. 30 The company paid $860 cash for this month's utility bill. Required Prepare general journal entries to record these transactions (use account titles listed in part 2). Open the following ledger accounts—their account numbers are in parentheses (use the balance column format): Cash (101); Accounts Receivable (106); Office Supplies (124); Prepaid Insurance (128); Prepaid Rent (131); Office Equipment (163); Accounts Payable (201); H. Humble, Capital (301); H. Humble, Withdrawals (302); Services Revenue (403); and Utilities Expense (690). Post journal entries from part 1 to the ledger accounts and enter the balance after each posting. Check (2) Ending balances: Cash, $21,520; Accounts Receivable, $9,800; Accounts Payable, $550 Prepare a trial balance as of the end of September. (3) Total debits, $74,330 Problem 2-2B Preparing and posting journal entries; preparing a trial balance P1 A1 At the beginning of April, Bernadette Grechus launched a custom computer solutions company called Softworks. The company had the following transactions during April. B. Grechus invested $65,000 cash, office equipment with a value of $5,750, and $30,000 of computer equipment in the company. The company purchased land worth $22,000 for an office by paying $5,000 cash and signing a note payable for $17,000. The company purchased a portable building with $34,500 cash and moved it onto the land acquired in b. The company paid $5,000 cash for the premium on a two-year insurance policy. The company provided services to a client and immediately collected $4,600 cash. The company purchased $4,500 of additional computer equipment by paying $800 cash and signing a note payable for $3,700. The company completed $4,250 of services for a client. This amount is to be received within 30 days. The company purchased $950 of additional office equipment on credit. The company completed $10,200 of services for a customer on credit. The company purchased $580 of TV advertising on credit. The company collected $5,100 cash in partial payment from the client described in transaction i. The company paid $1,800 cash for employee wages. The company paid $950 cash to settle the payable created in transaction

h. The company paid $608 cash for repairs.Page 78 B. Grechus withdrew $6,230 cash from the company for personal use. The company paid $1,800 cash for employee wages. The company paid $750 cash for advertisements on the web during April. Required Prepare general journal entries to record these transactions (use account titles listed in part 2). Open the following ledger accounts—their account numbers are in parentheses (use the balance column format): Cash (101); Accounts Receivable (106); Prepaid Insurance (108); Office Equipment (163); Computer Equipment (164); Building (170); Land (172); Accounts Payable (201); Notes Payable (250); B. Grechus, Capital (301); B. Grechus, Withdrawals (302); Services Revenue (403); Wages Expense (601); Advertising Expense (603); and Repairs Expense (604). Post the journal entries from part 1 to the accounts and enter the balance after each posting. Check (2) Ending balances: Cash, $17,262; Accounts Receivable, $9,350; Accounts Payable, $580 Prepare a trial balance as of the end of April. (3) Trial balance totals, $141,080 Problem 2-3B Preparing and posting journal entries; preparing a trial balance P1 A1 Zucker Management Services opened for business and completed these transactions in November. Nov. 1 M. Zucker, the owner, invested $30,000 cash along with $15,000 of office equipment in the company. 2 The company prepaid $4,500 cash for six months' rent for an office. Hint: Debit Prepaid Rent for $4,500. 4 The company made credit purchases of office equipment for $2,500 and office supplies for $600. Payment is due within 10 days. 8 The company completed work for a client and immediately received $3,400 cash. 12 The company completed a $10,200 project on credit for a client, who must pay within 30 days. 13 The company paid $3,100 cash to settle the payable created on November 4. 19 The company paid $1,800 cash for the premium on a 24-month insurance policy. 22 The company received $5,200 cash as partial payment for the work completed on November 12. 24 The company completed work for another client for $1,750 on credit. 28 M. Zucker withdrew $5,300 cash from the company for personal use. 29 The company purchased $249 of additional office supplies on credit. 30 The company paid $831 cash for this month's utility bill. Required Prepare general journal entries to record these transactions (use account titles listed in part 2). Open the following ledger accounts—their account numbers are in parentheses (use the balance column format): Cash (101); Accounts Receivable (106); Office Supplies (124); Prepaid Insurance (128); Prepaid Rent (131); Office Equipment (163); Accounts Payable (201); M. Zucker, Capital (301); M. Zucker, Withdrawals (302); Services Revenue (403); and Utilities Expense (690). Post the journal entries from part 1 to the ledger accounts and enter the balance after each posting. Check (2) Ending balances: Cash, $23,069; Accounts Receivable, $6,750; Accounts Payable, $249 Prepare a trial balance as of the end of November. (3) Total debits, $60,599 Problem 2-4B Recording transactions; posting to ledger; preparing a trial balance P1 A1 Nuncio Consulting completed the following transactions during June. A. Nuncio, the owner, invested $35,000 cash along with office equipment valued at $11,000 in

the new company. The company purchased land valued at $7,500 and a building valued at $40,000. The purchase is paid with $15,000 cash and a note payable for $32,500. The company purchased $500 of office supplies on credit. A. Nuncio invested an automobile in the company. The automobile has a value of $8,000. The company purchased $1,200 of additional office equipment on credit. The company paid $1,000 cash salary to an assistant. The company provided services to a client and collected $3,200 cash. The company paid $540 cash for this month's utilities. The company paid $500 cash to settle the payable created in transaction c. The company purchased $3,400 of new office equipment by paying $3,400 cash. The company completed $4,200 of services on credit for a client, who must pay within 30 days. The company paid $1,000 cash salary to an assistant. The company received $2,200 cash in partial payment on the receivable created in transaction k. A. Nuncio withdrew $1,100 cash from the company for personal use. Page 79 Required Prepare general journal entries to record these transactions (use account titles listed in part 2). Check (2) Ending balances: Cash, $17,860; Office Equipment, $15,600 Open the following ledger accounts—their account numbers are in parentheses (use the balance column format): Cash (101); Accounts Receivable (106); Office Supplies (108); Office Equipment (163); Automobiles (164); Building (170); Land (172); Accounts Payable (201); Notes Payable (250); A. Nuncio, Capital (301); A. Nuncio, Withdrawals (302); Consulting Revenue (403); Salaries Expense (601); and Utilities Expense (602). Post the journal entries from part 1 to the ledger accounts and enter the balance after each posting. Prepare a trial balance as of the end of June. (3) Trial balance totals, $95,100 Problem 2-5B Computing net income from equity analysis, preparing a balance sheet, and computing the debt ratio P1 A2 The accounting records of Tama Co. show the following assets and liabilities as of December 31 for Year 1 and for Year 2. December 31 Year 1 Year 2 Cash $30,000 $ 5,000 Accounts receivable 35,000 25,000 Office supplies 8,000 13,500 Office equipment 40,000 40,000 Machinery 28,000 28,500 Building 0 250,000 Land 0 50,000 Accounts payable 4,000 12,000 Note payable 0 250,000 Required Prepare balance sheets for the business as of December 31 for Year 1 and Year 2. Hint: Report only total equity on the balance sheet and remember that total equity equals the difference between assets and liabilities. Compute net income for Year 2 by comparing total equity amounts for these two years and using the following information: During Year 2, the owner invested $5,000 additional cash in the business and withdrew $3,000 cash for personal use. Check (2) Net income, $11,000 Compute the Year 2 debt ratio. (3) Debt ratio, 63.6% Problem 2-6B Analyzing account balances and reconstructing transactions P1 A1 Roshaun Gould started a web consulting firm called Gould Solutions. He began operations and completed seven transactions in April that resulted in the following accounts, which all have normal balances. Cash $20,000 Office supplies 750 Prepaid rent 1,800 Office equipment 12,250 Accounts payable 12,250 R. Gould, Capital 15,000 R. Gould, Withdrawals 5,200 Consulting

revenue 20,400 Miscellaneous expenses 7,650 Required Prepare a trial balance for this business as of the end of April. Check (1) Trial balance totals, $47,650 (2) Ending Cash balance, $20,000 The following seven transactions produced the account balances shown above. Gould invested $15,000 cash in the business. Paid $1,800 cash in advance for next month's rent expense. Paid $7,650 cash for miscellaneous expenses. Purchased office supplies for $750 cash. Purchased $12,250 of office equipment on credit (with accounts payable). Received $20,400 cash for consulting services provided in April. Gould withdrew $5,200 cash from the company for personal use. Prepare a Cash T-account, enter the cash effects (if any) of each transaction, and compute the ending Cash balance. Code each entry in the T-account with one of the transaction codes a through g. Problem 2-7B Preparing an income statement, statement of owner's equity, and balance sheet P1 Victoria Rivera owns and manages a consulting firm called Prisek, which began operations on July 1. On July 31, the company's records show the following selected accounts and amounts for the month of July. Cash $24,000 Accounts receivable 10,500 Notes receivable 7,500 Office supplies 4,500 Prepaid insurance 3,000 Equipment 12,000 Accounts payable 3,900 Notes payable 7,200 Unearned revenue 900 V. Rivera, Capital 34,800 V. Rivera, Withdrawals 6,000 Consulting revenue 36,000 Rental revenue 1,500 Salaries expense 9,000 Rent expense 6,000 Advertising expense 1,200 Utilities expense 600Page 80 Required Prepare a July income statement for the business. Prepare a July statement of owner's equity. The V. Rivera, Capital account balance at July 1 was $0, and the owner invested $34,800 cash in the company on July 2. Prepare a July 31 balance sheet. Hint: Use the V. Rivera, Capital account balance calculated in part 2.

SERIAL PROBLEM Business Solutions P1 A1 Serial problem started in Chapter 1. If the Chapter 1 segment was not completed, the problem can begin at this point. It is available in Connect with an algorithmic option. Alexander Image/Shutterstock SP 2 On October 1, 2021, Santana Rey launched a computer services company called Business Solutions, which provides consulting services, computer system installations, and custom program development. The company's initial chart of accounts follows. Account No. Cash 101 Accounts Receivable 106 Computer Supplies 126 Prepaid Insurance 128 Prepaid Rent 131 Office Equipment 163 Computer Equipment 167 Accounts Payable 201 S. Rey, Capital 301 S. Rey, Withdrawals 302 Computer Services Revenue 403 Wages Expense 623 Advertising Expense 655 Mileage Expense 676 Miscellaneous Expenses 677 Repairs Expense—Computer 684 Required Prepare journal entries to record each of the following transactions for Business Solutions. Oct. 1 S. Rey invested $45,000 cash, a $20,000 computer system, and $8,000 of office equipment in the company. 2 The company paid $3,300 cash for four months' rent. Hint: Debit Prepaid Rent for $3,300. 3 The company

purchased $1,420 of computer supplies on credit from Harris Office Products. 5 The company paid $2,220 cash for one year's premium on a property and liability insurance policy. Hint: Debit Prepaid Insurance for $2,220. 6 The company billed Easy Leasing $4,800 for services performed in installing a new web server. 8 The company paid $1,420 cash for the computer supplies purchased from Harris Office Products on October 3. 10 The company hired Lyn Addie as a part-time assistant. 12 The company billed Easy Leasing another $1,400 for services performed. 15 The company received $4,800 cash from Easy Leasing as partial payment on its account. 17 The company paid $805 cash to repair computer equipment that was damaged when moving it. 20 The company paid $1,728 cash for advertisements. 22 The company received $1,400 cash from Easy Leasing on its account. 28 The company billed IFM Company $5,208 for services performed. 31 The company paid $875 cash for Lyn Addie's wages for seven days' work. 31 S. Rey withdrew $3,600 cash from the company for personal use. Nov. 1 The company paid $320 cash for mileage expenses. 2 The company received $4,633 cash from Liu Corporation for computer services performed. 5 The company purchased computer supplies for $1,125 cash from Harris Office Products. 8 The company billed Gomez Co. $5,668 for services performed. 13 The company agreed to perform future services for Alex's Engineering Co. No work has yet been performed. 18 The company received $2,208 cash from IFM Company as partial payment of the October 28 bill. 22 The company paid $250 cash for miscellaneous expenses. Hint: Debit Miscellaneous Expenses for $250. 24 The company completed work and sent a bill for $3,950 to Alex's Engineering Co. 25 The company sent another bill to IFM Company for the past-due amount of $3,000. 28 The company paid $384 cash for mileage expenses. 30 The company paid $1,750 cash for Lyn Addie's wages for 14 days' work. 30 S. Rey withdrew $2,000 cash from the company for personal use.Page 81 Open ledger accounts (in balance column format) and post the journal entries from part 1 to them. Check (2) Cash, Nov. 30 bal., $38,264 (3) Trial bal. totals, $98,659 Prepare a trial balance as of the end of November.

TABLEAU DASHBOARD ACTIVITIES Tableau Dashboard Activities expose students to accounting analytics using visual displays. These assignments (1) do not require instructors to know Tableau, (2) are accessible to introductory students, (3) do not require Tableau software, and (4) run in Connect. All are auto-gradable. Tableau DA 2-1 Quick Study, Identifying normal balance, C2—similar to QS 2-4 and 2-5. Tableau DA 2-2 Exercise, Preparing an income statement, P1—similar to QS 2-15. Tableau DA 2-3 Mini-Case, Preparing an income statement, statement of owner's equity, and balance sheet, P1—similar to Exercises 2-25, 2-26, and 2-27.

GENERAL LEDGER General Ledger (GL) Assignments expose students to general ledger software similar to that in practice. GL is part of Connect, and GL assignments are auto-gradable and have algorithmic options. For the following GL assignments, we prepare journal entries and identify the financial statement impacts of each entry. Financial statements are automatically generated based on the journal entries recorded—this feature can be turned off. GL 2-1 Based on FastForward GL 2-2 Based on Exercise 2-13 GL 2-3 Based on Exercise 2-16 GL 2-4 Based on Problem 2-1A For the following GL assignments, we record journal entries, create financial statements, and assess the impact of each transaction on financial statements. GL 2-5 Based on Problem 2-2A GL 2-6 Based on Problem 2-3A GL 2-7 Based on Problem 2-4A GL 2-8 Based on the Serial Problem SP 2

Accounting Analysis COMPANY ANALYSIS A2 AA 2-1 Refer to Apple's financial statements in Appendix A for the following questions. Required What amount of total liabilities does Apple report for each of the fiscal years ended (a) September 28, 2019, and (b) September 29, 2018? What amount of total assets does it report for each of the fiscal years ended (a) September 28, 2019, and (b) September 29, 2018? Compute its debt ratio for each of the fiscal years ended (a) September 28, 2019, and (b) September 29, 2018. (Report ratio in percent and round it to one decimal.) In which fiscal year did it employ more financial leverage: the year ending September 28, 2019, or September 29, 2018? Explain. COMPARATIVE ANALYSIS A2 AA 2-2 Key comparative figures for Apple and Google follow. Table Summary: Table has banner heads for columns 2 and 3 and for columns 4 and 5. Apple Google $ millions Current Year Prior Year Current Year Prior Year Total liabilities $248,028 $258,578 $ 74,467 $ 55,164 Total assets 338,516 365,725 275,909 232,792 What is the debt ratio for Apple in the current year and for the prior year? What is the debt ratio for Google in the current year and for the prior year? Which of the two companies has the higher degree of financial leverage in the current year? Page 82 EXTENDED ANALYSIS A2 AA 2-3 Key comparative figures for Apple, Google, and Samsung follow. Table Summary: Table has banner heads for columns 2 and 3, for columns 4, and for column 5. Samsung Apple Google $ millions Current Year Prior Year Current Year Prior Year Total liabilities $ 76,952 $ 78,599 $248,028 $ 74,467 Total assets 302,511 291,179 338,516 275,909 Required Compute Samsung's debt ratio for the current year and prior year. Did Samsung's financial leverage increase or decrease in the current year? Looking at the current year debt ratio, is Samsung a more risky or less risky investment than (a) Apple and (b) Google?

Discussion Questions Provide the names of two (a) asset accounts, (b) liability accounts, and (c) equity accounts. What is the difference between a note payable and an account

payable? Discuss the steps in processing business transactions. What kinds of transactions can be recorded in a general journal? Are debits or credits typically listed first in general journal entries? Are the debits or the credits indented? Should a transaction be recorded first in a journal or the ledger? Why? If assets are valuable resources and asset accounts have debit balances, why do expense accounts also have debit balances? Why does the recordkeeper prepare a trial balance? If an incorrect amount is journalized and posted to the accounts, how should the error be corrected? Identify the four financial statements of a business. What information is reported in a balance sheet? What information is reported in an income statement? Why does the user of an income statement need to know the time period that it covers? Define (a) assets, (b) liabilities, and (c) equity. Which financial statement is sometimes called the statement of financial position?

Beyond the Numbers ETHICS CHALLENGE C1 BTN 2-1 Assume that you are a cashier and your manager requires that you immediately enter each sale when it occurs. Recently, lunch hour traffic has increased and the assistant manager asks you to avoid delays by taking customers' cash and making change without entering sales. The assistant manager says she will add up cash and enter sales after lunch. She says that, in this way, customers will be happy and the register record will always match the cash amount when the manager arrives at three o'clock. The advantages to the process proposed by the assistant manager include improved customer service, fewer delays, and less work for you. The disadvantage is that the assistant manager could steal cash by simply recording less sales than the cash received and then pocketing the excess cash. You decide to reject her suggestion without the manager's approval and to confront her on the ethics of her suggestion. Required Propose and evaluate two other courses of action you might consider, and explain why. COMMUNICATING IN PRACTICE P1 BTN 2-2 Lila Corentine is an aspiring entrepreneur and your friend. She is having difficulty understanding the purposes of financial statements and how they fit together across time. Required Write a one-page memorandum to Corentine explaining the purposes of the four financial statements and how they are linked across time. Page 83 TAKING IT TO THE NET P1 BTN 2-3 Access EDGAR online (sec.gov/edgar) and locate the 2018 10-K report of Amazon.com (ticker: AMZN) filed on February 1, 2019. Review its financial statements reported for years ended 2018, 2017, and 2016 to answer the following questions. Required What are the amounts of Amazon's net income or net loss reported for each of these three years? Do Amazon's operating activities provide cash or use cash for each of these three years? Hint: See the statement of cash flows. If Amazon has 2018 net income of $10,073 million and 2018 operating cash flows of $30,723 million, how is it possible that its cash balance at December 31, 2018, increases by only $10,317

million relative to its balance at December 31, 2017? TEAMWORK IN ACTION C1 C2 A1 BTN 2-4 The expanded accounting equation consists of assets, liabilities, owner capital, withdrawals, revenues, and expenses. It can be used to reveal insights into changes in a company's financial position. Required Form learning teams of six (or more) members. Each team member must select one of the six components, and each team must have at least one expert on each component: (a) assets, (b) liabilities, (c) owner capital, (d) withdrawals, (e) revenues, and (f) expenses. Form expert teams of individuals who selected the same component in part 1. Expert teams are to draft a report that each expert will present to his or her learning team addressing the following: Identify for its component the (i) increase and decrease sides of the account and (ii) normal balance side of the account. Describe a transaction, with amounts, that increases its component. Using the transaction and amounts in (b), verify the equality of the accounting equation and then explain any effects on the income statement and statement of cash flows. Describe a transaction, with amounts, that decreases its component. Using the transaction and amounts in (d), verify the equality of the accounting equation and then explain any effects on the income statement and statement of cash flows. Each expert should return to his/her learning team. In rotation, each member presents his/her expert team's report to the learning team. Team discussion is encouraged. ENTREPRENEURIAL DECISION P1 A2 BTN 2-5 Assume that Katrina Lake of Stitch Fix plans to expand her business to accommodate more product lines. She is considering financing expansion in one of two ways: (1) contributing more of her own funds to the business or (2) borrowing the funds from a bank. Required Identify at least two issues that Katrina should consider when trying to decide on the method for financing the expansion. ENTREPRENEURIAL DECISION P1 A2 BTN 2-6 Angel Martin is a young entrepreneur who operates Martin Music Services, offering singing lessons and instruction on musical instruments. Martin wishes to expand but needs a $30,000 loan. The bank requests that Martin prepare a balance sheet and key financial ratios. Martin has not kept formal records but is able to provide the following accounts and their amounts as of December 31. Cash $ 3,600 Prepaid rent 9,400 Accounts payable 2,200 Annual net income 40,000 Accounts receivable 9,600 Store supplies 6,600 Unearned lesson fees 15,600 Prepaid insurance 1,500 Equipment 50,000 Total equity* 62,900 *The total equity amount reflects all owner investments, withdrawals, revenues, and expenses as of December 31. Required Prepare a balance sheet as of December 31 for Martin Music Services. (Report only the total equity amount on the balance sheet.) Compute Martin's debt ratio and its return on assets (the latter ratio is defined in Chapter 1). Assume average assets equal its ending balance. Do you believe the prospects of a $30,000 bank loan are good? Why or why not? Design Element: ©Danil Melekhin/Getty Images